


CALFRAC WELL SERVICES LTD. › ANNUAL REPORT

2006

GLOBAL SERVICE STRENGTH

CALFRAC WELL SERVICES LTD.

Calfrac recognizes that to be successful in providing the best in specialty pressure pumping services, customers require more than technology. They require global support, superior service and best practices that offer a model for success. They require the proficiency, technology and capability of an industry leader. Calfrac has the expertise and reach to deliver this complete solution.

Since our Company's inception in 1999, Calfrac Well Services Ltd. has become a leading independent provider of specialty designed fracturing, coiled tubing, cementing and well servicing solutions that are designed to increase the production of hydrocarbons from wells drilled throughout Western Canada, the United States and Russia. Each of our service lines offers new opportunities for our Company to develop innovative equipment and technologies that improve operating efficiency, reduce environmental impact and deliver superior results, as evidenced by our expanded capabilities to meet the growing demand in the deeper, more technically challenging basins of Western Canada. We are able to respond quickly to customer needs and new opportunities by deploying our best-in-class solutions, equipment and personnel to markets as required with minimal time and cost.

Our goal is the same today as it was when we began over seven years ago: to safely and efficiently provide the highest degree of expertise, innovative technology and service to our customers. The concept is simple, but the implementation is not. Although we compete in an arena with companies several times our size, our success is attributable to our ability to meet the needs of our customers by providing SERVICE FIRST along with TECHNOLOGIES THAT WORK IN THE FIELD.

Calfrac is a Canadian corporation headquartered in Calgary, Alberta with regional offices in Denver, Colorado and Moscow, Russia as well as operating bases located in Edson, Grande Prairie, Medicine Hat, Red Deer and Strathmore, Alberta; Grand Junction and Platteville, Colorado; Beebe, Arkansas; as well as Khanty-Mansiysk, Noyabrsk and Purpe, Russia. The common shares of Calfrac Well Services Ltd. are listed for trading on the Toronto Stock Exchange under the symbol CFW.

A major cornerstone of Calfrac's success is the collective experience, expertise and performance of our employees.

A Karihman Abdulmedzhidov · Boualem Abeddou · Mikhail Abolentsev · Wayne Adams · Martin Adimulia · Adam Adishirinov · Bhupinder Adiwal · Veronica Afanasieva · Kibrom Afework · Sergey Agalakov · Andrey Agritsky · Konstantin Agritsky Kathleen Ahearn · Lundy Aichele · Clayton Airth · Ruslan Akhmatnabiev · Rafil Akhmerov · Zabir Akhmetzyanov · Vyacheslav Akimov · Royce Aldred · Yuri Alentiev · Lisa Alexandre · Sergey Alexandrov · Andrey Alexeyev · Chandler Allen · Sean D. Allen Sean P. 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GLOBAL
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CANADA

During 2006, Calfrac expanded its presence in the fracturing, coiled tubing and cementing service markets of Western Canada with the construction of new state-of-the-art equipment. We believe that the long-term outlook for these markets remains very positive as the industry continues to drill for unconventional gas reserves in coal, shale and tight gas reservoirs. These reservoirs can be found throughout the Western Canadian Sedimentary Basin and require innovative solutions to stimulate production.

Calfrac has responded to this market opportunity by expanding the pumping capacity of its fracturing operations to service the deeper basin markets of northern Alberta and northeastern British Columbia, designing specialized equipment and using innovative fluid systems and engineering solutions. This strategy provides our Company with a competitive advantage and has resulted in consistently strong revenue and profit growth. By the end of the first quarter of 2007, we expect to be operating 16 conventional and four coalbed methane fracturing spreads, 11 coiled tubing units and 17 cementing units in Canada.


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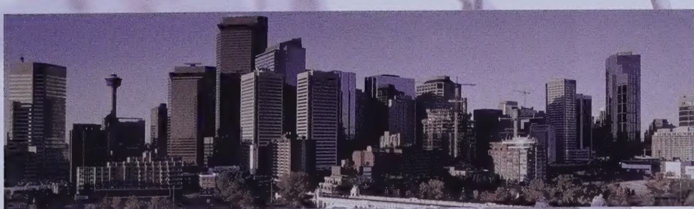

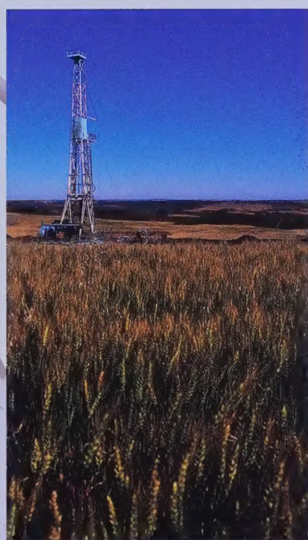

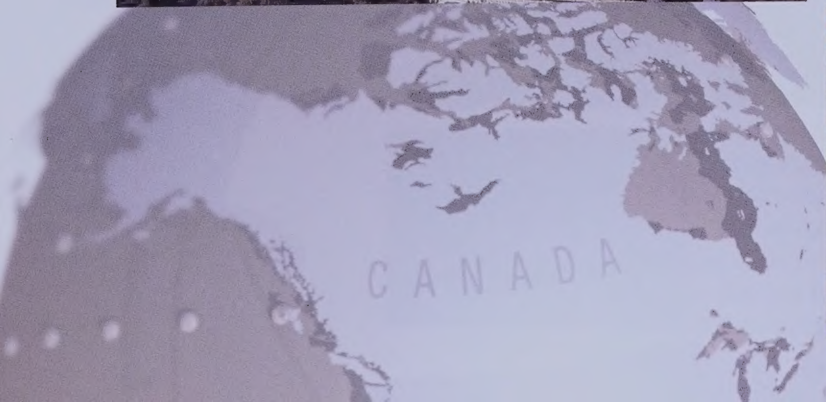
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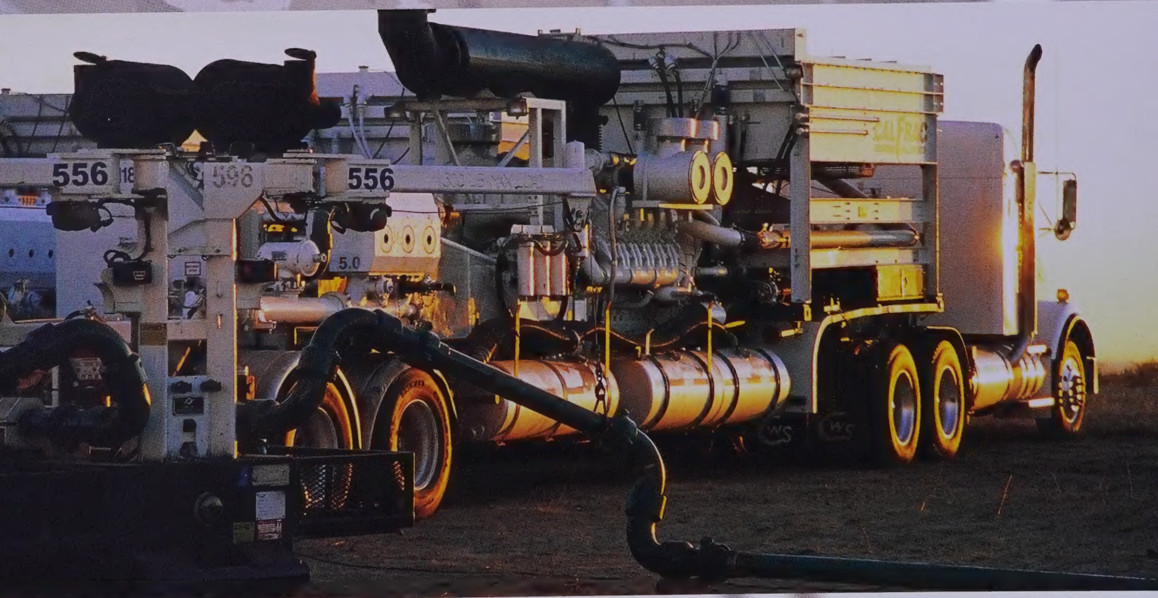
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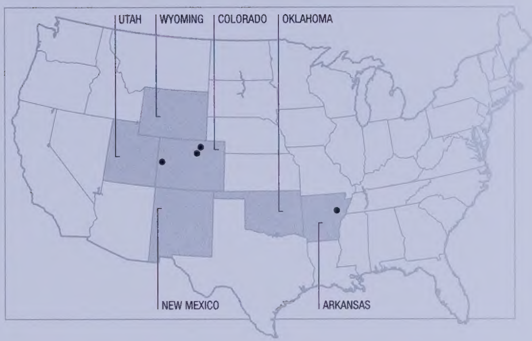


UNITED STATES

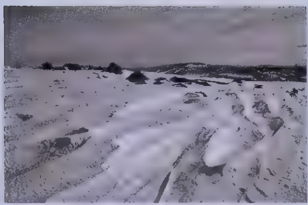
Calfrac achieved record revenue and net income in the United States during 2006 primarily as a result of additional fracturing equipment and strong demand for its services. We entered the U.S. Rocky Mountain region in 2002, and during 2006 we continued to grow these operations by increasing our number of fracturing spreads by two for a total of five spreads.

Calfrac's expansion in the United States was focused in the Grand Junction area of western Colorado to service the deep, multiple fracturing requirements of the tight sand gas wells in the Piceance and Uintah Basins. Eastern Colorado was also an area of growth as the Company secured large volume contracts with major operators. Late in the year, we finalized a long-term contract with a leading oil and gas company to service a new fracturing market encompassing Arkansas and eastern Oklahoma, and as a result, we opened a new operating base in Beebe, Arkansas in early 2007 to facilitate this expansion. It is anticipated that additional opportunities will be available to Calfrac in these new shale and tight gas markets as these basins develop. During the first quarter of 2007, we will deploy five conventional fracturing spreads from our three United States operating bases.

RUSSIA

Calfrac commenced operations in the Russian well services market during 2005, and by the end of 2006 the Company was operating one fracturing spread and three coiled tubing units in Western Siberia. A second fracturing spread was deployed to our newest operating base located in Purpe, Western Siberia in February 2007. Two additional coiled tubing units are expected to be deployed and operational by the end of the first quarter of 2007. This equipment will service term contracts with two of Russia's largest users of pressure pumping services.

During 2007, we plan to operate two fracturing spreads and five coiled tubing units in Western Siberia. These expanded and more diversified operations have reached a critical mass and are expected to drive further improvement in the Company's financial and operating performance in this market.



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ANNUAL RESULTS >

Years Ended December 31,	2006	2005	Change
(000s, except per share and unit data)	($)	($)	(%)
Financial			
Revenue	**426,418**	314,325	36
Gross margin (1)	**135,362**	109,098	24
Net income	**72,450**	60,113	21
Per share – basic	**2.00**	1.66	20
– diluted	**1.98**	1.64	21
Cash flow from operations (2)	**101,932**	80,592	26
Per share – basic	**2.81**	2.23	26
– diluted	**2.79**	2.20	27
EBITDA (3)	**109,533**	79,611	38
Per share – basic	**3.02**	2.20	37
– diluted	**3.00**	2.18	38
Capital expenditures	**155,478**	97,614	59
Working capital	**31,225**	39,396	(21)
Total assets	**454,190**	336,815	35
Shareholders' equity	**303,510**	234,021	30
Market capitalization at year-end	**804,184**	1,460,201	(45)
Weighted average shares (basic) outstanding (#)	**36,286**	36,216	–
(unaudited)	(#)	(#)	(%)
Operating as at December 31			
Fracturing spreads			
Conventional fracturing	**21**	17	24
Coalbed methane	**4**	4	–
Total	**25**	21	19
Coiled tubing units	**14**	11	27
Cementing units	**13**	9	44

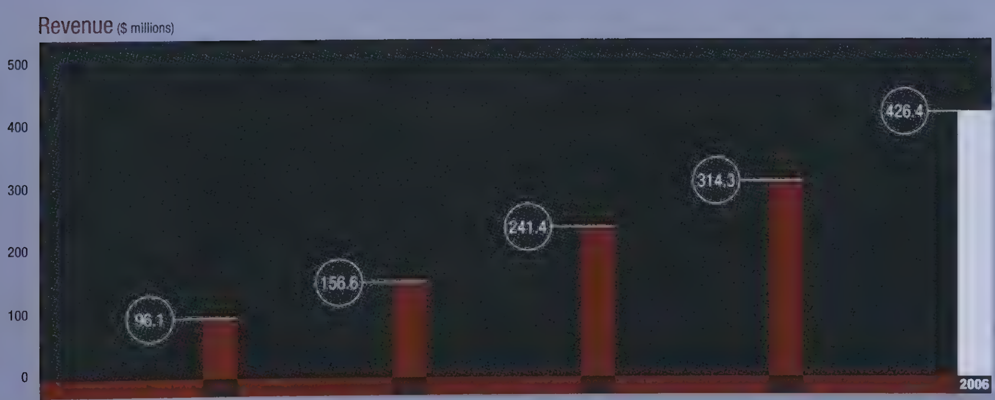
QUARTERLY RESULTS >

Quarters Ended	March 31,		June 30,		September 30,		December 31,	
	2006	2005	2006	2005	2006	2005	2006	2005
(000s, except per share data) (unaudited)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	**126,010**	80,694	**66,973**	44,619	**115,112**	77,377	**118,322**	111,634
Gross margin (1)	**49,927**	32,437	**14,446**	7,630	**36,500**	25,694	**34,488**	43,336
Net income (loss)	**34,556**	21,670	**1,569**	(1,876)	**19,418**	12,947	**16,907**	27,372
Per share – basic	**0.95**	0.60	**0.04**	(0.05)	**0.54**	0.36	**0.47**	0.75
– diluted	**0.94**	0.59	**0.04**	(0.05)	**0.53**	0.35	**0.46**	0.75
Cash flow from operations (2)	**41,656**	26,015	**7,208**	2,280	**27,560**	18,503	**25,507**	33,794
Per share – basic	**1.15**	0.72	**0.20**	0.06	**0.76**	0.51	**0.70**	0.93
– diluted	**1.13**	0.71	**0.20**	0.06	**0.76**	0.51	**0.70**	0.92
EBITDA (3)	**42,736**	25,339	**8,761**	1,907	**29,614**	18,234	**28,421**	34,131
Per share – basic	**1.18**	0.70	**0.24**	0.05	**0.82**	0.50	**0.78**	0.94
– diluted	**1.16**	0.69	**0.24**	0.05	**0.81**	0.50	**0.78**	0.93

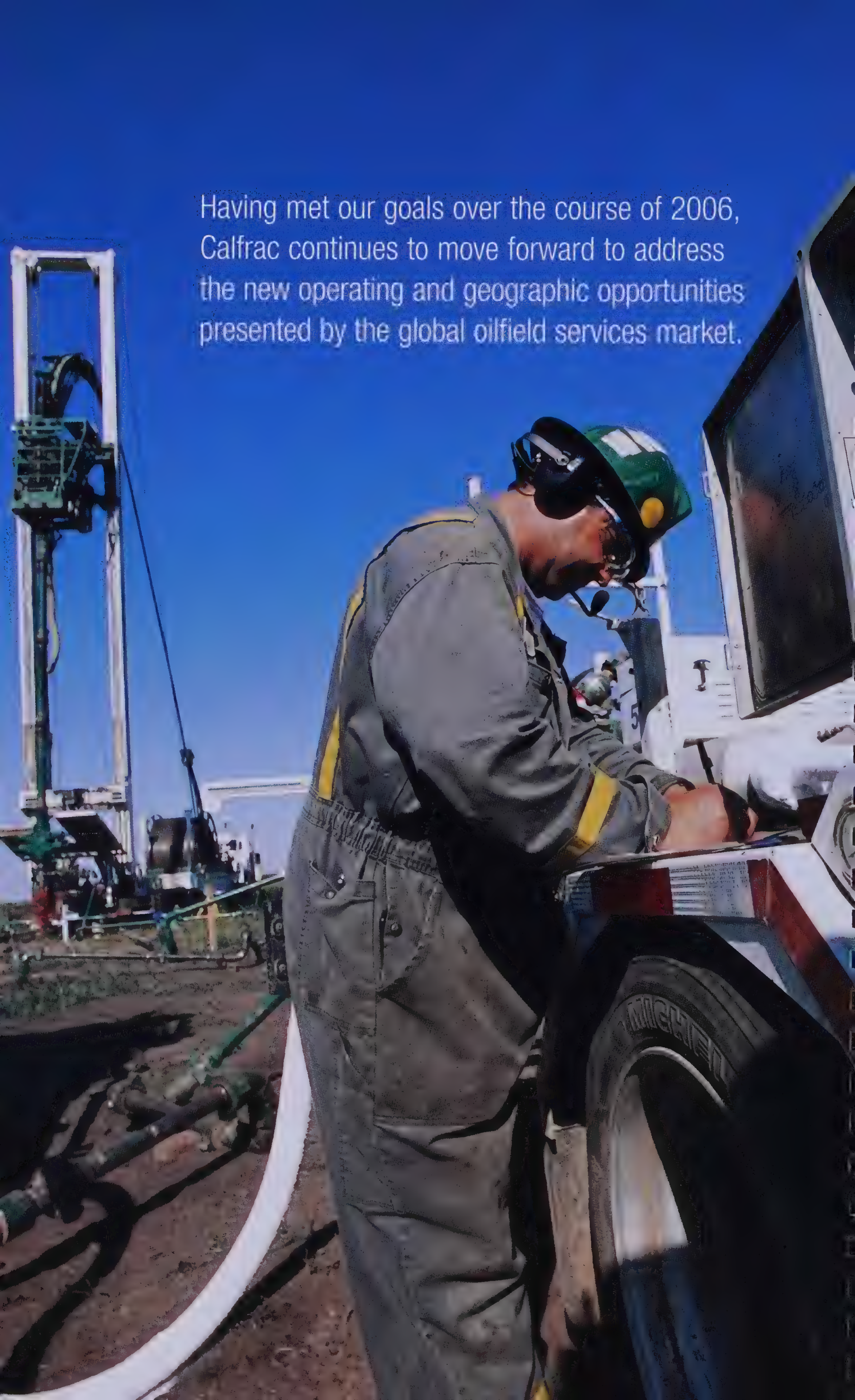
1. Gross margin is defined as revenue less operating expenses excluding depreciation and amortization. Gross margin is a measure that does not have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.
2. Cash flow is defined as "funds provided by operations," as reflected in the consolidated statement of cash flows. Cash flow and cash flow per share are measures that provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management utilizes these measures to assess the Company's ability to finance operating activities and capital expenditures. Cash flow and cash flow per share are not measures that have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.
3. EBITDA is defined as income before interest, taxes, depreciation and amortization. EBITDA is presented because it is frequently used by securities analysts and others for evaluating companies and their ability to service debt. EBITDA is a measure that does not have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.

A Global Strategy: Operating Model

Our goal is to become the best pressure pumping services company in our market areas as measured by customer satisfaction, operational excellence, financial returns and motivated employees.



Having met our goals over the course of 2006, Calfrac continues to move forward to address the new operating and geographic opportunities presented by the global oilfield services market.



> We believe that success in this endeavour lies in the fundamental values that Calfrac brings to every initiative: that SERVICE FIRST and TECHNOLOGIES THAT WORK IN THE FIELD are, first and foremost, about making our customers successful. It's about working in partnership with our customers to deliver services and solutions that are right for them. It's about outstanding customer support, operating excellence and industry knowledge. These values have made Calfrac the industry leader it is today.

We are very satisfied with this year's results. Our service lines continued to lead the market in quality of service in Canada, with significant growth in the Rocky Mountain region of the United States as well as Western Siberia in Russia. During 2006, we furthered our business model of operational and geographic diversification through the deployment of additional fracturing spreads, coiled tubing units and cementing units to our operating regions.

FINANCIAL HIGHLIGHTS >

Calfrac achieved record financial performance as a result of a strong oil and gas price environment, an expanded fleet of service equipment and careful execution of the Company's business strategy. Year-over-year financial gains included:

- [illegible]
- [illegible]
- [illegible]
- [illegible]

For the year ended December 31, 2006, average consolidated fracturing revenue per job increased 26% to $56,759 from $45,006 recorded in 2005. Improvements in operational efficiency, equipment utilization and market share all positively affected this key performance indicator.

Consolidated Fracturing Revenue Per Job ($)

OPERATIONAL HIGHLIGHTS >

Calfrac initiated a focused capital program during 2006 that totaled $155.5 million, the largest in the Company's history, to enhance our global fracturing and coiled tubing equipment fleet as well as to increase the scale of our Canadian cementing operations. This extensive and diversified equipment inventory enables "on demand" deployment of assets to our three global operating regions as required, which, together with our experienced workforce, is a key competitive advantage. During the year, our operational growth included the following highlights.

Canada

- [illegible]
- [illegible]
- [illegible]

United States

- [illegible]
- [illegible]

Russia

- [illegible]
- [illegible]
- [illegible]

OUR FUTURE GROWTH >

Our key to growth is looking beyond near-term gains and investing in the future.

Working with our Customers

Our customers, as well as the size of jobs that we are being asked to complete, are getting bigger and we need to partner with them in new and different ways in order to grow our share of their business. We continue to add the talent and resources necessary to capture the increasing demand for deep zone operations in the Western Canadian Sedimentary Basin, the United States and Russia. To that end, we will further expand the pumping capacity of our fracturing units, convert shallow fracturing and coiled tubing units to operate in these deeper, more technical areas and continue to develop new fluid systems and engineering solutions to enhance operational performance and efficiency. We are investing more resources to assist our customers and to help us identify new opportunities for mutual growth.

Extending our Service Lines and Customers to New Geographic Areas

The focus internationally is to build our service lines into truly global offerings. We are currently operating in the world's top three fracturing markets and are looking to provide our full suite of services to each of these regions. We look to grow our Company by further sourcing new customers, expanding current offerings to our existing client base and seizing opportunities that will extend our reach into new international markets. We will also continue to proactively review the industry for acquisition opportunities that meet our equipment and safety standards as well as our strict return on capital criteria.

THE CHALLENGES WE FACE >

We continue to tackle the challenges we face head on and use them as our competitive edge.

Workforce

Given the current economic and industry climate, we struggle primarily with finding and retaining a reliable, qualified and dedicated workforce. We recognize that a job is more than a pay cheque and that people want to work for an employer who respects them as individuals, puts their safety and health first, creates advancement opportunities through training and education, encourages teamwork, welcomes ideas and nurtures a collaborative atmosphere. Good pay and benefits are important, but so are ethical business practices. These are the qualities that make Calfrac a great place to work.

Commodity Price Volatility

Over the past nine months, the energy industry has experienced an erosion in natural gas prices, thereby affecting drilling activity levels. Calfrac is known for proactively working with its customers to respond to these shifts in operational activities. For example, our focus on achieving high utilization rates and on-the-job efficiencies has created an environment that reduces costs for the service provider and the customer. We continue to work with our customers to develop and implement viable solutions to the changing demands of the energy services business by providing exceptional service, innovative technologies and state-of-the-art equipment.

LOOKING FORWARD >

As we look to the future, we are keeping a sharp eye on the climate of the global energy industry. At Calfrac, we believe our business model that focuses on pressure pumping service lines and a global reach allows us to proactively adjust to industry activity and commodity price fluctuations as required. Currently, it would appear that high levels of natural gas storage in North America may have a negative impact on domestic drilling activity levels in 2007. However, with a strong balance sheet, a sophisticated strategy for operating and growing our business and the strong competitive advantages that come with being an industry leader, we believe we have the capacity to ride out any downturn that may occur in the energy sector.

Our objective is to continue to anticipate and respond to our customers' needs with the superior operating equipment, best practices, global support and expertise they require to be successful with our solutions which will translate into improved business performance for Calfrac.

Planned capital expenditures for 2007 are anticipated to total approximately $96 million, of which $76 million relates to new equipment, and will be focused on staying the course with our strategy of increasing the pumping capacity in Canada to better serve the deep basin markets in northern Alberta and northeastern British Columbia, expanding our United States fracturing operations into Arkansas and eastern Oklahoma and opening and equipping a new operating base in Purpe, Western Siberia to support the increasing scale of our Russian operations. By the end of the first quarter of 2007, Calfrac expects to have 27 fracturing spreads, 16 coiled tubing units and 17 cementing units operating globally.

We believe we have the financial flexibility, the strategy and the team in place to sustain the kind of financial and operational performance that our stakeholders have come to expect from Calfrac. Behind our performance is a team of extraordinary board members, management and staff who stand at the core of Calfrac's success. We extend to them our sincere thanks for their ongoing dedication to this Company. To our growing global base of business partners, loyal customers and shareholders, we thank you for your continued support and confidence in Calfrac.

This is a tremendously exciting time for Calfrac. We clearly have momentum and we have great people who are passionate about continuing that drive. We are looking for another strong year in 2007, and we are putting new energy behind all service lines to increase their growth in the years to come. Our objective is to continue to anticipate and respond to our customers' needs with the superior operating equipment, best practices, global support and expertise they require to be successful with our solutions, which will translate into improved business performance for Calfrac.

On behalf of the Board of Directors,

RONALD P. MATHISON
Chairman

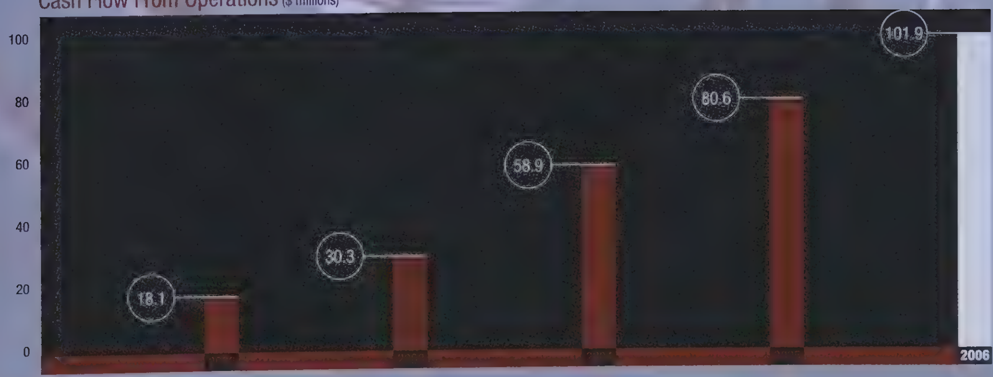
DOUGLAS R. RAMSAY
President & Chief Executive Officer

February 26, 2007
Calgary, Alberta

A Global Strategy:
Service First

We will deliver the highest quality service so customers turn to us first.

Cash Flow From Operations ($ millions)




CARBON DIOXIDE
8085

> Calfrac develops and manufactures a unique fleet of specially designed equipment and utilizes innovative technologies with four key operating factors in mind: efficiency, performance, reliability and environmental protection.

SERVICE LINES >

Calfrac is a leading independent provider of oilfield pressure pumping services, including fracturing, coiled tubing, cementing and other well stimulation services, which are designed to enhance the recovery of hydrocarbons from oil and gas reservoirs in Canada, the United States and Russia. Calfrac develops and manufactures a unique fleet of specialty designed equipment and utilizes innovative technologies with four key operating factors in mind: efficiency, performance, reliability and environmental protection.

During 2006, Calfrac significantly expanded its global fracturing and coiled tubing equipment fleet as well as the scale of its Canadian cementing operations. At December 31, 2006, the Company's equipment fleet included 21 conventional and four coalbed methane ("CBM") fracturing spreads, nine shallow and five deep coiled tubing units and 13 cementing units. This extensive and diversified equipment inventory enables the Company to deploy equipment and personnel to geographic regions as required with minimal time and cost.

CANADIAN OPERATIONS >

Calfrac's CBM and shallow gas fracturing operations in southern Alberta lagged expectations due to the impact of lower natural gas prices, wet weather and CBM land access, licensing and infrastructure issues. Consequently, the Company reallocated some of its equipment and personnel to other regions within this market that were active in deep basin projects. By year-end, Calfrac was operating

15 conventional and four CBM fracturing spreads in the Canadian market. In keeping with the Company's philosophy of securing a certain level of business with long-term contracts, in March 2006 a new multi-year take-or-pay contract was signed with a major independent Canadian oil and gas producer for the provision of a conventional fracturing spread dedicated to Western Canada's deep basin market. Calfrac currently has long-term contracts on four of its Canadian fracturing spreads that will support a minimum level of activity during 2007. Throughout the upcoming year, the Company expects to add one conventional fracturing spread and significant horsepower to its Canadian operations.

The Company's coiled tubing operations also continued to expand in 2006. Two new deep coiled tubing units were added to better service Canada's growing intermediate and deep basin operations. At December 31, 2006, the Company had nine shallow and two deep coiled tubing units operating in Canada. The Company anticipates that these operations will continue to become a more significant portion of its overall business.

Calfrac continued to enhance the scope of its cementing operations in Western Canada with a strategic focus on the deeper, more technically challenging basins of northern Alberta and northeastern British Columbia. During 2006, the Company increased its cementing equipment fleet from nine at the beginning of the year to 13 at year-end with the deployment of four new twin pumping units to service the region's intermediate and deep basins. In addition, in August Calfrac opened a new state-of-the-art automated bulk cement plant in Red Deer, Alberta. This modern facility more than doubles the Company's previous blending capacity with the added advantages of full automation, improved blend quality and an environmentally friendly vacuum system. In December, a new satellite cementing base and a staging base for fracturing and coiled tubing operations opened in Edson, Alberta in order to extend the Company's operating reach to a growing list of customers in the region. During the first quarter of 2007, the Company plans to add four cementing units to its operating fleet.

UNITED STATES OPERATIONS >

During the past year, Calfrac progressed its global expansion strategy by deploying additional equipment to the Rocky Mountain region of the United States. In order to better service the Company's growing base of customers in the Grand Junction district, two additional multi-pumper fracturing spreads were deployed during the year for a total of five conventional fracturing spreads operating in the U.S. at year-end. In addition, a long-term take-or-pay contract was signed late in the year with a major U.S. oil and gas company to provide fracturing services to a new operating district encompassing Arkansas and eastern Oklahoma. As a result, it is expected that a multi-pumper fracturing spread will be reallocated from the Company's Grand Junction district to its new operating base located in Beebe, Arkansas late in the first quarter of 2007, thereby further strengthening the Company's United States operations.

During 2006, Calfrac continued to grow its presence in the Russian well services market by opening a new operating base and deploying additional equipment. These expanded and more diversified operations are expected to drive further improvement in the Company's future performance in this market.

RUSSIAN OPERATIONS >

Calfrac continued to grow its presence in the Russian well services market by opening a new operating base in Khanty-Mansiysk, Western Siberia in May 2006. During the year, the Company deployed its first multi-pumper fracturing spread and a deep coiled tubing unit to this new operating region. At year-end, the Company was operating one conventional fracturing spread as well as three deep coiled tubing units in Russia. In February 2007, the Company deployed a second fracturing spread to its newest operating base located in Purpe, Western Siberia. Two additional coiled tubing units are expected to be delivered to Russia by the end of the first quarter of 2007. This equipment will work under three annual service awards negotiated with two of Russia's largest oil and gas companies. Contrary to Calfrac's North American operations, its Russian operations are more heavily weighted to the oil well pressure pumping services market. For 2007, it is anticipated that the larger scale of Russian operations will help drive continued corporate growth and, to some extent, mitigate the impact of a possible slowdown in activity in Canada and the United States.

NEW TECHNOLOGY >

Throughout 2006, the oil and gas industry continued its shift in activity towards developing deeper and tighter gas reservoirs, which has resulted in rising demand for larger stimulation treatments. Both tight sands and shale gas reservoirs lie near the bottom of the resource pyramid where, although reserve potential is high, deliverability through conventional technology is challenging. For stimulation treatments to be effective in these tight reservoirs where permeability is measured in terms of micro and nano Darcys, maximizing the areal contact of the reservoir to the wellbore is of primary importance. Large fracturing treatments pumped at very high rates are known as slick water fracturing, or in the case of Calfrac, the CWS-600 system. These fluid and pumping technologies, combined with innovative completion practices, allow multiple intervals to be treated in both vertical and horizontal wells. Unlike conventional stage fracturing that requires multiple trips to the well location, slick water fracturing technology can stimulate several intervals concurrently, thereby reducing the environmental impact and helping to lower overall well completion costs. In response to this recent industry trend, over the past several years Calfrac has invested in additional pumping capacity, and during 2007 it plans to acquire an additional 21 high pressure pumping units for use in Canada, the United States and Russia.

During the past year, the Alberta Energy and Utilities Board ("EUB") introduced new environmental standards for shallow gas fracturing. More specifically, fracturing treatments performed in well depths that are above the base of ground water protection, as outlined by the EUB, are required to use special stimulation fluids. Calfrac proactively responded to this new standard by developing a new series of innovative fluid systems, which successfully passed stringent Microtox® testing.

The expansion into the Russian market has also prompted Calfrac to develop a new approach to traditional fracture fluid systems. Consequently, the Company has introduced a new continuous mix, high viscosity, cross-linked fluid system that is providing for more efficient fracturing operations and lower costs for customers.

Oil and gas industry trends are shifting, while environmental standards are becoming more rigorous. Calfrac continues to lead the pressure pumping services sector by developing new technologies, fluid systems and engineering solutions designed to increase operational efficiency, reduce environmental impact and lower overall well completion costs.

EQUIPMENT >

Calfrac operates a comprehensive fleet of equipment that, on average, is less than three years old. A major challenge for the Company continues to be managing the operational impact of construction delays for new fracturing, coiled tubing and cementing equipment. The Company's equipment expansion has been slowed by delays as a result of high activity levels in the equipment manufacturing sector and a shortage of critical components. Calfrac continues to meet with its manufacturers and other third party suppliers to address this ongoing issue and has been proactive in obtaining major components directly from suppliers. In addition, during 2006 Calfrac continued to increase its fleet management staff as well as the number of Canadian, U.S. and international vendors.

HEALTH, SAFETY AND ENVIRONMENT >

The Company utilizes a comprehensive and integrated internal system (the Calfrac Management System) to manage, monitor and report on health, safety and environmental ("HS&E") incidents and issues. This system is based on business and industry best practices that meet or exceed all regulatory standards and provides guidelines to ensure that a consistent approach is achieved across all of its global operations. As Calfrac continues to grow the scope and scale of its operations, it remains committed to providing a safe work environment for its employees, third party contractors and customers.

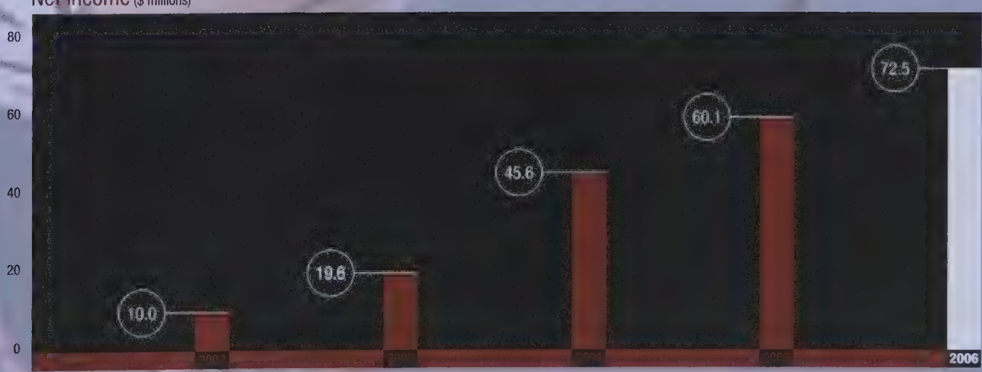
During 2006, the Company continued to educate its employees on safe work practice methods and emergency response procedures. Calfrac collaborates with a number of safety institutions and related third parties to ensure its employees are trained and certified in compliance with Company and regulatory standards. In addition, the Company's operations and HS&E staff actively participate with industry partners to develop standards and protocols to further the industry's best practices.

The Calfrac Management System is a comprehensive and integrated internal system that manages, monitors and reports on Company HS&E activities. This system is based on business and industry best practices that meet or exceed all regulatory standards and provides guidelines to ensure that a consistent approach is achieved across all of its global operations.

A Global Strategy: Technologies That Work in the Field

We will work relentlessly to reduce costs and improve productivity and operating efficiency.

Net Income ($ millions)




CALFRAC

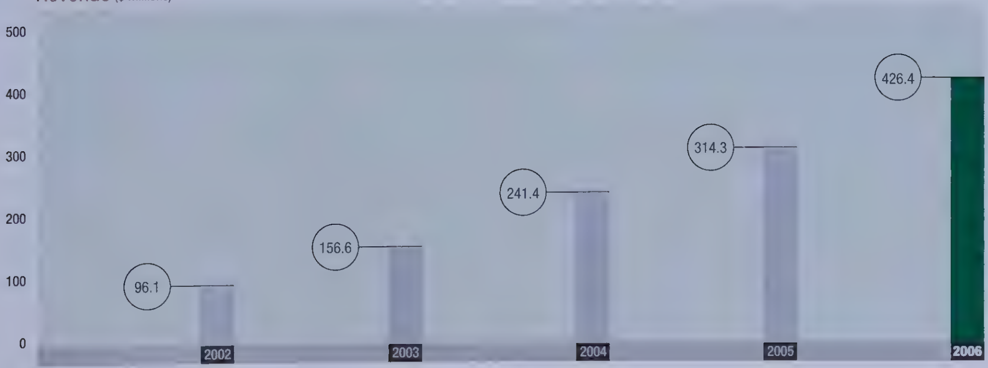
This Management's Discussion and Analysis ("MD&A") for Calfrac Well Services Ltd. ("Calfrac" or the "Company") has been prepared by management as of February 26, 2007 and is a review of the financial condition and results of operations of the Company based on accounting principles generally accepted in Canada. Its focus is primarily a comparison of the financial performance for the three months and years ended December 31, 2006 and 2005 and should be read in conjunction with the audited consolidated financial statements and accompanying notes for those periods as well as the MD&A for the three months and years ended December 31, 2005. Readers should also refer to the "Forward-Looking Statements" legal advisory located at the end of this MD&A. The annual consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

All financial amounts and measures presented in this MD&A are expressed in Canadian dollars unless otherwise indicated. The definitions of certain non-GAAP measures used within this MD&A have been included at the end of this MD&A.

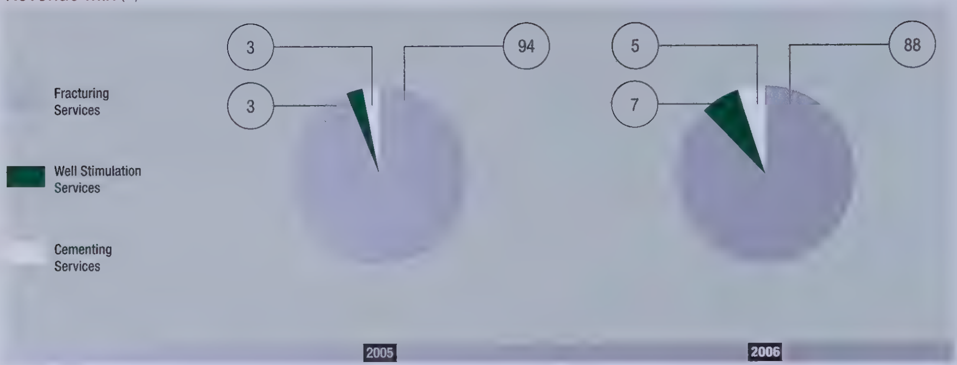
2006 HIGHLIGHTS >

Calfrac is an independent provider of specialized oilfield services in Canada, the United States and Russia, including fracturing, coiled tubing, cementing and other well stimulation services. The Company has established a leadership position by providing high quality, responsive service through an expanding geographic network, increased operating fleet and growing customer base. For the year ended December 31, 2006, Calfrac:

Revenue ($ millions)



Revenue Mix (%)



BUSINESS ENVIRONMENT >

Calfrac's 2006 financial and operating performance was primarily weighted to its Canadian natural gas fracturing operations. During 2006, the number of wells drilled in Western Canada decreased 7% to 22,979 from a record 24,803 wells drilled in 2005. The Company's shallow gas and coalbed methane ("CBM") activity levels were negatively impacted by customers reducing activity due to concerns surrounding lower natural gas commodity prices. CBM activity levels were also impacted by regulatory and landowner issues.

Oil and Gas Average Benchmark Prices

Years Ended December 31,	2006	2005
	($)	($)
AECO Price (CDN$/mcf)	**6.54**	8.78
WTI Price (US$/bbl)	**66.25**	56.70

The West Texas Intermediate benchmark crude oil price increased 17% in 2006 to average US$66.25 per barrel compared to US$56.70 per barrel a year ago. The 2006 AECO average spot price was $6.54 per thousand cubic feet, a 26% decrease from 2005. The Company anticipates that oil and gas prices over the short-term may remain volatile and that well service market activity levels should continue to be relatively strong, but lower than the record levels experienced in 2005.

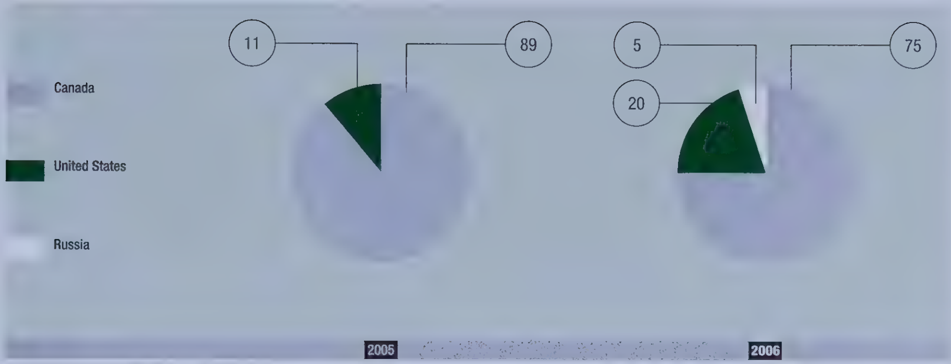
2006 PERFORMANCE SUMMARY >

Canadian Operations

Revenue from Canadian operations for 2006 increased 14% to $318.0 million compared to $280.1 million in 2005 primarily as a result of higher activity in the deeper, more technical areas of the Western Canadian Sedimentary Basin offset by lower activity due to the impact of weaker natural gas prices and CBM regulatory delays. Canadian fracturing revenue totaled $278.2 million, an increase of $15.4 million or 6% from the prior year. During 2006, the Company completed 5,238 Canadian fracturing jobs for average revenue of $53,105 per job compared to 6,063 jobs for $43,334 per job in 2005. The revenue per job for Canadian fracturing operations was higher in 2006 due primarily to significant increases in the number of jobs completed in the deeper basins of northern Alberta and northeastern British Columbia, price book increases for services effective January 1, 2006 and a reduction in the number of CBM and shallow gas jobs completed during the year.

The Company's revenue from coiled tubing operations increased $9.3 million in 2006 to $18.2 million compared to $8.9 million the previous year. In 2006, 5,875 jobs were completed for average revenue of $3,102 per job compared to 5,262 jobs for $1,698 per job in 2005. Year-over-year Canadian coiled tubing revenue and revenue per job increased primarily as a result of the deployment of two new coiled tubing units during the second quarter of 2006, which enabled the Company to generate higher levels of activity in the deeper markets of

Geographic Mix (%)



Western Canada. Additionally, the Company's coiled tubing operations were focused throughout 2005 on shallow gas operations in southern Alberta, which historically produce lower revenue on a per job basis. In 2006, these operations were negatively impacted by decreased drilling activity. Also during 2005, two coiled tubing units were transferred to Russia during the second and third quarters, which negatively impacted activity and revenue from this service line during the previous year.

For the year ended December 31, 2006, revenue from Calfrac's cementing operations totaled $21.6 million versus $8.4 million in 2005. This 158% increase was due primarily to a larger equipment fleet, expanded service area, including the deeper basin markets of northern Alberta and northeastern British Columbia, as well as the integration of cementing operations into its sales and marketing team. During 2006, the Company completed 1,974 jobs for average revenue of $10,959 per job compared to 1,007 jobs for average revenue of $8,336 per job in 2005.

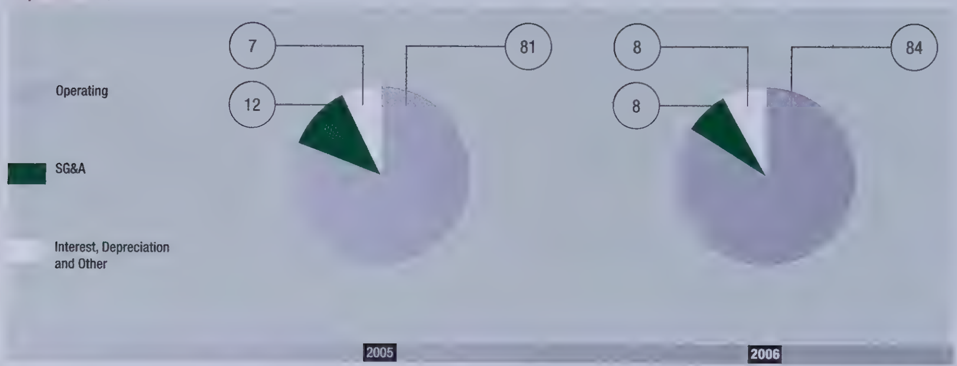
United States Operations

During 2006, revenue from Calfrac's United States operations totaled $86.3 million, up 161% from $33.0 million the previous year. This increase was primarily a result of a larger fracturing equipment fleet combined with higher levels of activity. In late 2005, a fracturing spread was deployed to eastern Colorado and another deep fracturing spread began operating in the Piceance Basin of western Colorado during March 2006. For the year ended December 31, 2006, the Company completed 1,284 U.S. fracturing jobs for average revenue of $67,037 per job compared to 509 jobs for $64,921 per job recorded a year ago. The year-over-year increase in the reported revenue per job was partially offset by a stronger Canadian dollar.

Russian Operations

Revenue from Calfrac's Russian operations increased $20.9 million to $22.1 million in 2006 from $1.2 million a year ago. The Company initially deployed two deep coiled tubing units to Russia during the fourth quarter of 2005. A third deep coiled tubing unit was added in May 2006, and in June the Company began operating its first Russian fracturing spread in the Khanty-Mansiysk region of Western Siberia. A second fracturing spread began operating from Calfrac's newest Russian operating district in Purpe, Western Siberia during the first quarter of 2007. Two additional coiled tubing units are anticipated to be deployed to Russia late in the first quarter of 2007. These expanded and more diversified operations have reached a critical mass and are expected to drive further improvement in the Company's future financial and operating performance in this market.

Expenses (%)



GROSS MARGIN >

Consolidated gross margin for the year ended December 31, 2006 increased 24% to $135.4 million from $109.1 million in 2005 primarily as a result of a larger fleet of equipment in all geographic segments and strong activity levels in the deeper basin markets of Western Canada and the United States. Consolidated gross margin as a percentage of revenue decreased to 32% from 35% in 2005 as a result of the impact of pricing pressures in the Canadian market during the latter half of 2006 and increased revenue from Russia, which has lower gross margins. This was partially offset by improved financial performance in the United States.

EXPENSES >

Operating Expenses

Calfrac's total 2006 operating expenses increased 42% to $291.1 million compared to $205.2 million in 2005 due primarily to a larger fleet of equipment and global operating presence, as well as higher activity levels and district overhead expenses. During 2006, district expenses increased as a result of the Company's growing scale of operations in each of its three geographic markets; more specifically, the expansion of existing Canadian districts servicing the deeper basins of Western Canada and the opening of a new district office in Russia. Additionally, Calfrac incurred the full year cost impact of new operating bases that were opened in the latter half of 2005 in Strathmore, Alberta; Grand Junction, Colorado; and Noyabrsk, Russia.

Selling, General and Administrative Expenses

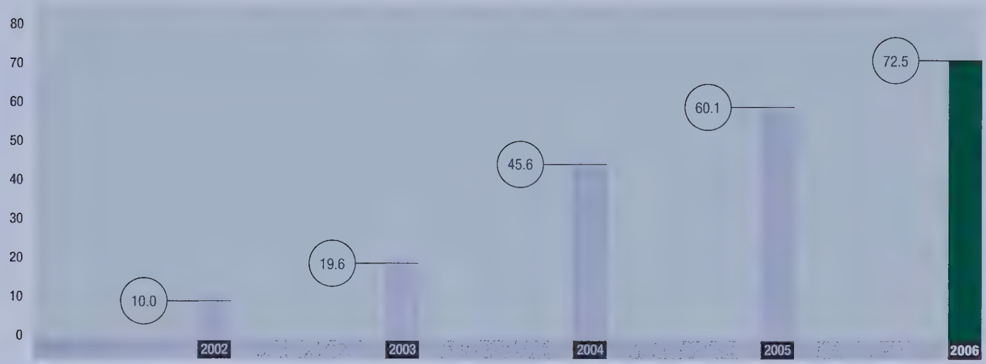
During 2006, Calfrac's selling, general and administrative ("SG&A") expenses declined 4% to $28.4 million compared to $29.5 million in the previous year primarily relating to lower stock-based compensation expenses, which decreased to $2.9 million from $4.3 million recorded in 2005. As a percentage of revenue, SG&A expenses decreased to 7% in 2006 compared to 9% in 2005. During 2005, the Company's higher relative stock price resulted in higher than normal expenses related to performance and deferred share units.

Interest, Depreciation and Other Expenses

Net interest expense increased to $2.3 million during 2006 compared to $0.1 million of net interest income in 2005 as a result of higher long-term debt incurred primarily to finance the Company's capital program. A public offering of Calfrac's shares in August 2004 for net proceeds of $26.8 million resulted in a stronger cash position and higher interest revenue during 2005 as compared to 2006.

In 2006, depreciation expense increased 50% or $8.6 million to $25.7 million primarily as a result of the deployment of four fracturing spreads, three coiled tubing units, four cementing units and other related equipment as well as a full year of depreciation relating to 2005 equipment additions.

Net Income ($ millions)



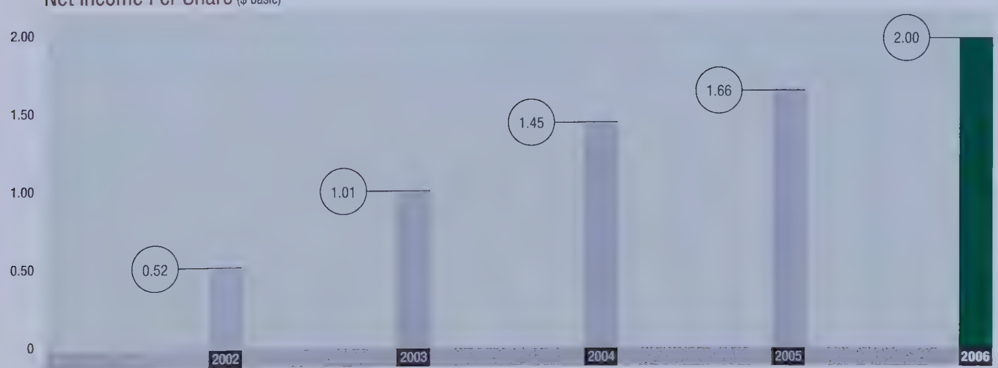
INCOME TAX >

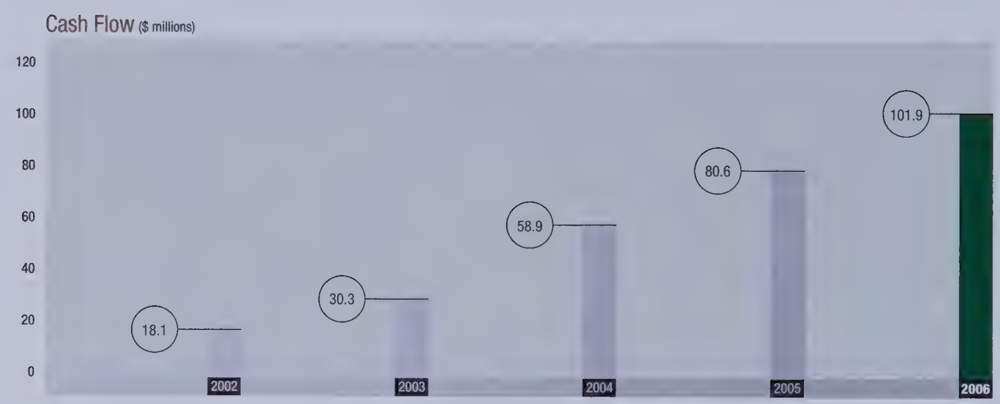
During 2006, the Company recorded an income tax expense of $9.0 million compared to $2.5 million a year ago. The current tax expense for 2006 was $7.5 million, an increase of $6.4 million from 2005. As a result of the business combination with Denison Energy Inc. ("Denison") in 2004, Calfrac significantly reduced its current income tax related to Canadian operations during 2005 and 2006. The increase in the current tax provision for 2006 was mainly attributed to the increased profitability of the Company's U.S. operations. For the year ended December 31, 2006, Calfrac recorded a future income tax expense of $1.5 million, up from $1.4 million in 2005. This provision is largely related to the drawdown of tax pools as a result of the Company's profitability.

NET INCOME >

For the year ended December 31, 2006, Calfrac's net income was $72.5 million or $2.00 per share (basic) compared to $60.1 million or $1.66 per share (basic) in 2005. This growth in earnings was primarily due to improved financial performance from the Company's Canadian deep basin and United States operations, a larger and more diversified fleet of equipment and less weather related issues than in 2005.

Net Income Per Share ($ basic)





CASH FLOW >

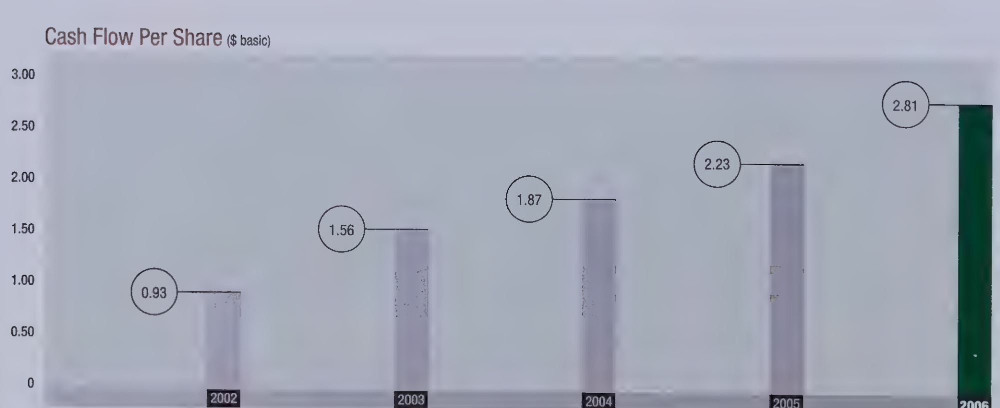
The Company's cash flow from operations before changes in non-cash working capital was $101.9 million in 2006, an increase of $21.3 million or 26% from $80.6 million recorded the previous year. This increase was primarily a result of:

- [illegible]

that was partially offset by:

- [illegible]
- [illegible]
- [illegible]

In both 2006 and 2005, cash flow was used to partially finance the Company's capital expenditures.



LIQUIDITY AND CAPITAL RESOURCES >

Years Ended December 31,	2006	2005
(000s)	($)	($)
Cash provided (used in):		
Operating activities	**110,518**	59,005
Financing activities	**42,756**	(128)
Investing activities	**(136,881)**	(97,520)
Increase (decrease) in cash and cash equivalents	**16,393**	(38,643)

Operating Activities

The Company's 2006 cash flow from operations, excluding changes in non-cash working capital, was $101.9 million compared to $80.6 million in 2005. The increase in cash flow was primarily due to higher revenues in all geographic markets driven mainly by higher activity levels (with the exception of Canadian CBM and shallow gas fracturing markets) partially reduced by increased expenses. As at December 31, 2006, Calfrac had positive working capital of $31.2 million compared to working capital of $39.4 million in 2005. The reduction in working capital was primarily due to higher trade payables related to the Company's capital expenditures.

Financing Activities

In 2006, total long-term debt increased to $60.0 million from $10.6 million a year ago. During the fourth quarter of 2006, the Company finalized the documentation to increase its available credit facilities to $150.0 million with a syndicate of Canadian chartered banks. The operating line of credit was increased from $20.0 million to $25.0 million with advances bearing interest at either the bank's prime rate, U.S. base rate, LIBOR plus 1% or bankers' acceptances plus 1%. The revolving term loan was increased to $125.0 million from $50.0 million and bears interest at either the bank's prime rate plus 0.25%, U.S. base rate plus 0.25%, LIBOR plus 1.25% or bankers' acceptances plus 1.25%. On February 13, 2007, Calfrac completed a private placement of unsecured senior notes for an aggregate principal amount of US$135.0 million. These notes are due on February 15, 2015 and bear interest at 7.75%. As a result of this debt offering, the Company's revolving term loan was reduced by $60.0 million to $65.0 million. A portion of the proceeds received from these notes was used to repay the outstanding amounts related to the existing operating and revolving term credit facilities. As at the date of this report, the Company has unused credit facilities in the amount of $90.0 million and approximately US$50.0 million of cash invested in short-term investments.

On February 7, 2005, the shareholders of the Company voted in favour of a two-for-one subdivision of the Company's common shares. Common shares began trading on a split basis on the Toronto Stock Exchange on February 17, 2005. As at the date of this report, the Company has 36,390,408 common shares outstanding.

In May 2005, Calfrac's Board of Directors adopted a semi-annual dividend policy of $0.05 per common share. In accordance with this policy, the Company most recently paid a common share dividend on January 5, 2007 totaling $1.8 million to all shareholders of record on December 19, 2006. The Company's dividends qualify as "eligible dividends" as defined by the Canada Revenue Agency.

Investing Activities

During 2006, net cash used for investing activities increased to $136.9 million from $97.5 million in 2005. For the year ended December 31, 2006, capital expenditures totaled $155.5 million, up from $97.6 million a year ago. This increase in capital expenditures was primarily due to:

- [illegible]
- [illegible]
- [illegible]
- [illegible]

During December 2006, the Company entered into a long-term contract with a leading independent U.S. oil and gas company for fracturing services in Arkansas and eastern Oklahoma. Under the terms of this contract, Calfrac will provide a multi-pumper fracturing spread for a two-year term with minimum work commitments that will be serviced by Calfrac's existing fleet of equipment as well as equipment being manufactured pursuant to the Company's 2007 capital program. This contract is consistent with Calfrac's philosophy of having a prescribed level of its equipment fleet operating under long-term contracts. In addition, the Company was awarded a one-year contract with a new customer in Purpe, Russia. This contract includes the provision of a multi-pumper fracturing spread, deep coiled tubing unit and additional support equipment. At the end of the first quarter of 2007, it is anticipated that Calfrac will be operating 27 fracturing spreads, 16 coiled tubing units and 17 cementing units.

On February 11, 2005, the Company acquired the remaining 30% interest in Ram Cementers Inc. ("Ram"), thereby making Ram a wholly owned subsidiary of Calfrac. Subsequent to this acquisition, Ram was wound-up into Calfrac and all operating, marketing and financial activities became fully integrated within the Company.

With its current working capital position, available credit facilities and anticipated cash flow from operations, the Company expects to have adequate resources to fund its financial obligations for 2007.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES >

		Payment Due by Period			
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
(000s)	($)	($)	($)	($)	($)
Long-term debt	60,000	–	19,200	40,800	–
Operating leases	26,137	6,649	6,688	5,363	7,437
Purchase obligations	18,373	16,925	1,448	–	–
Total contractual obligations	104,510	23,574	27,336	46,163	7,437

Calfrac has various contractual obligations related to debt, leasing of vehicles and office space and raw material purchase commitments as outlined above.

Russian Value Added Taxes

As described in note 15 to the annual consolidated financial statements, Calfrac is involved in legal proceedings against the Russian government's tax authorities with respect to the recovery of certain Value Added Taxes ("VAT") paid when new equipment from North America was imported into the country. The Company believes that it is entitled to recover these previously paid VATs against the VAT amounts collected from Russian customers for the provision of pressure pumping services. As at December 31, 2006, the total recoverable amount of Russian VAT receivable was $4.5 million. During 2006, the Company was successful in similar proceedings and believes that the recovery of these amounts will be resolved within the next 12 months.

Greek Legal Proceedings

As described in note 15 to the annual consolidated financial statements, the Company is involved in a number of legal proceedings in Greece. Management evaluates the likelihood of potential liabilities being incurred and the amount of such liabilities after careful examination of available information and discussions with its legal advisors. As these proceeding have yet to reach a status where the direction of a court's decision can be determined with any reliability, management is unable to evaluate its potential exposure to these legal proceedings at this time. The Company does not expect these claims to be material.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING >

The President & Chief Executive Officer ("CEO") and Vice President, Finance & Chief Financial Officer ("CFO") of Calfrac are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") for the Company.

DC&P is designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

In accordance with the requirements of Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings," an evaluation of the design and operating effectiveness of DC&P was carried out under the supervision of the CEO and CFO as at the end of the period covered by this report.

Based on this evaluation, the CEO and CFO have concluded that, subject to the inherent limitations noted below, the Company's DC&P is designed and operating effectively to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities.

The Company's management, including the CEO and CFO, does not expect that the Company's DC&P will prevent or detect all misstatements or instances of fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and misstatements or instances of fraud, if any, within the Company have been detected. Likewise, ICFR, no matter how well designed, has inherent limitations. Therefore, ICFR can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

There was no change to the Company's ICFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

ACCOUNTING POLICIES AND ESTIMATES >

Changes In Accounting Policies

No changes in accounting principles were adopted in 2006.

Recent Accounting Pronouncements

Management is assessing new Canadian and U.S. accounting pronouncements that have been issued and are not yet effective. These new pronouncements are set out below.

In January 2005, the Canadian Institute of Chartered Accountants issued Handbook Section 3855 "Financial Instruments - Recognition and Measurement," Handbook Section 1530 "Comprehensive Income" and Handbook Section 3865 "Hedges." In the year ending December 31, 2007, Calfrac will adopt these new standards that require the presentation of a separate statement of comprehensive income under specific circumstances. The Company does not expect that the adoption of these policies will have a material impact on its consolidated financial statements.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS 109, "Accounting for Taxes." FIN 48 prescribes a threshold condition that a tax position be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of these uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has not yet determined the impact on its financial position, results of operations or cash flows from FIN 48.

In February 2006, FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – An Amendment of FASB Statement Nos. 133 and 140" ("SFAS 155"). SFAS 155 simplifies the accounting for certain hybrid financial instruments under SFAS 133 by permitting fair value remeasurement for financial instruments containing an embedded derivative that otherwise would require separation of the derivative from the financial instrument. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. The Company does not expect that SFAS 155 will have a material impact on its financial position, results of operations or cash flows.

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements. The statement is effective for fair value measures already required or permitted by other standards for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company has not yet determined the impact on its financial position, results of operations or cash flows from SFAS 157.

Critical Accounting Policies and Estimates

This MD&A is based on the Company's annual consolidated financial statements that have been prepared in accordance with Canadian GAAP. Management is required to make assumptions, judgements and estimates in the application of GAAP. Calfrac's significant accounting policies are described in note 2 to the annual consolidated financial statements. The preparation of the consolidated financial statements requires that certain estimates and judgements be made concerning the reported amount of revenues and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management's judgement. Anticipating future events involves uncertainty, and consequently, the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold,

additional experience is acquired or the environment in which the Company operates changes. The following accounting policies and practices involve the use of estimates that have a significant impact on the Company's financial results.

DEPRECIATION

Depreciation of the Company's property and equipment incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change, thereby impacting the operation of the Company's property and equipment.

STOCK-BASED COMPENSATION

As described in note 8 to the annual consolidated financial statements, the fair value of stock options are estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, estimated volatility of the Company's shares and anticipated dividends.

INCOME TAXES

As described in notes 9 and 10 to the annual consolidated financial statements, the amount of the future tax asset and deferred tax credit in respect of the income tax pools available to the Company have been based on tax filings to date. The income tax rates used to calculate the amount of the future asset have been based on available information on future income tax rates. The income tax authorities have not audited any of these pools so far as they relate to the Company.

RISK FACTORS >

Calfrac's consolidated financial results are affected by numerous risks, including those listed below and those identified in the Company's most recently filed Annual Information Form available at www.sedar.com.

Volatility of Industry Conditions

The demand, pricing and terms for fracturing, coiled tubing, cementing and other well stimulation services largely depend on the level of exploration and development activity for North American and Russian natural gas and, to a lesser extent, oil. Industry conditions are influenced by numerous factors over which the Company has no control, including the level of oil and natural gas prices, expectations about future oil and natural gas prices, the cost of exploring for, producing and delivering oil and natural gas, the decline rates for current production, the discovery rates of new oil and natural gas reserves, available pipeline and other oil and natural gas transportation capacity, weather conditions, political, military, regulatory and economic conditions, and the ability of oil and natural gas companies to raise equity capital or debt financing. A material decline in global oil and natural gas prices or North American and Russian activity levels as a result of any of the above factors could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Seasonality

Calfrac's financial results are directly affected by the seasonal nature of the Canadian oil and natural gas industry. The first quarter incorporates the winter drilling season when most of the activity takes place. During the second quarter, soft ground conditions typically curtail oilfield activity in all of the Company's Canadian operating areas such that many rigs are unable to move about due to road bans. This period, commonly referred to as "spring breakup," occurs earlier in the year in southeastern Alberta than it does in northern Alberta and northeastern British Columbia. Consequently, this is the Company's weakest three-month revenue period. Additionally, if an unseasonably warm winter prevents sufficient freezing, Calfrac may not be able to access wellsites, and as a result, the Company's operating results and financial condition may be adversely

affected. The demand for fracturing and other well stimulation services may also be affected by severe winter weather in North America and Russia. In addition, during excessively rainy periods in any of the Company's operating areas, equipment moves may be delayed, thereby adversely affecting revenues. The volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which can have a material adverse effect on Calfrac's business, financial condition, results of operations and cash flows.

Sources, Pricing and Availability of Raw Materials and Component Parts

The Company sources its raw materials, such as proppant, chemicals, nitrogen, carbon dioxide, diesel fuel, and component parts, such as coiled tubing, from a variety of suppliers in North America and Russia. Should Calfrac's current suppliers be unable to provide the necessary raw materials and component parts at a price acceptable to the Company, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services could have a material adverse effect on Calfrac's business, financial condition, results of operations and cash flows.

Operational Risks

Calfrac's operations are subject to hazards inherent in the oil and gas industry such as equipment defects, malfunction and failures, and natural disasters that result in fires, vehicle accidents, explosions and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment. These hazards could expose the Company to substantial liability for personal injury, wrongful death, property damage, loss of oil and gas production, pollution and other environmental damages. The Company continuously monitors its activities for quality control and safety, and although Calfrac maintains insurance coverage that it believes to be adequate and customary in the industry, such insurance may not be adequate to cover potential liabilities and may not be available in the future at rates that the Company considers reasonable and commercially justifiable.

Liabilities From Prior Operations

The Company transferred the Canadian oil and natural gas assets, mining leases, mining environmental services and related assets and liabilities of Denison to two new public companies that provided indemnities to Calfrac for all claims or losses relating to Denison's prior business, except for matters related to specific liabilities retained by the Company. Despite these indemnities, it is possible that Calfrac may be found responsible for claims or losses relating to the assets and liabilities transferred by Denison and that the claims or losses may not be within the scope of the indemnities or the indemnifying party may lack sufficient financial resources to satisfy its obligations pursuant to the indemnities. Because of the nature of Denison's former operations, these claims or losses could include substantial environmental claims. The Company cannot predict the outcome or ultimate impact of any legal or regulatory proceedings that may relate to Denison's prior ownership or operation of these assets.

Greek Legal Proceedings

The Company is involved in several legal proceedings with former employees of Denison Mines Inc. relating to the cessation of its oil and natural gas operations in Greece during 1998 and 1999. The Company intends to defend itself against the claims of the employees, however the direction and financial consequences of decisions in these proceedings cannot be determined at this time.

Competition

Company participates in a highly competitive industry. The principal competitive factors in the markets in which Calfrac operates include: product and service quality and availability, technical knowledge and experience, reputation for safety, and quality. The Company competes with regional, national and multi-national companies that have greater financial and other resources than Calfrac. These companies offer a wide range of well stimulation services in all geographic regions in which Calfrac operates. As a result of competition, the Company may suffer from a significant reduction in revenue or be unable to pursue additional business opportunities.

Foreign Exchange

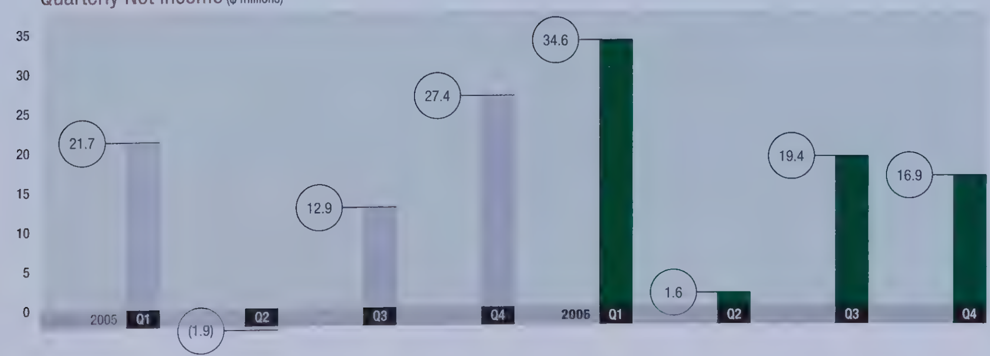
The Company incurs a significant amount of its expenses in U.S. dollars, and as a result, these expenditures are directly affected by the Canadian/U.S. dollar exchange rate, which fluctuates over time. Russian revenue is earned in U.S. dollars, but is paid in Russian rubles converted to U.S. dollars at the official conversion rate in Russia on the day prior to payment. Conversion rates of the Russian ruble to or from U.S. dollars will also affect the Company's net income. This exposure is mitigated by the Company's operations in the United States and Russia.

Mitigation of Risks Factors

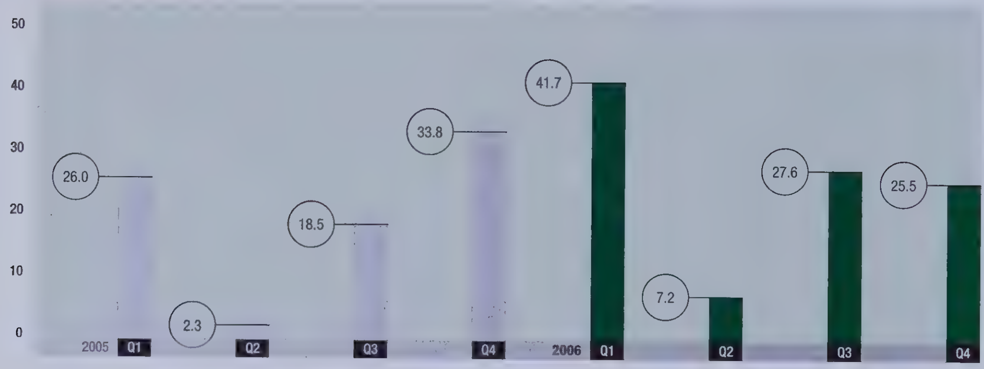
The Company expects that its strong financial position, experienced management team with significant investments at risk, innovative equipment and services as well as its long-term contractual relationships with certain customers will enhance its ability to weather the downturns in industry drilling activity and unforeseen adverse events.

Quarterly Revenue ($ millions)

Quarterly Net Income ($ millions)



Quarterly Cash Flow ($ millions)



Quarters Ended	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Total
(000s, except per share and unit data) (unaudited)	($)	($)	($)	($)	($)
2006					
Revenue	126,010	66,973	115,112	118,322	426,418
Gross margin (1)	49,927	14,446	36,500	34,488	135,362
Net income	34,556	1,569	19,418	16,907	72,450
Per share – basic	0.95	0.04	0.54	0.47	2.00
– diluted	0.94	0.04	0.53	0.46	1.98
Cash flow from operations (2)	41,656	7,208	27,560	25,507	101,932
Per share – basic	1.15	0.20	0.76	0.70	2.81
– diluted	1.13	0.20	0.76	0.70	2.79
EBITDA (3)	42,736	8,761	29,614	28,421	109,533
Per share – basic	1.18	0.24	0.82	0.78	3.02
– diluted	1.16	0.24	0.81	0.78	3.00
Capital expenditures	50,631	36,501	23,931	44,415	155,478
Working capital	37,071	28,741	31,158	31,225	31,225
Shareholders' equity	271,084	267,559	287,616	303,510	303,510
Fracturing spreads (#)					
Conventional fracturing	18	19	19	21	21
Coalbed methane	4	4	4	4	4
Total	22	23	23	25	25
Coiled tubing units (#)	12	14	14	14	14
Cementing units (#)	9	11	11	13	13

1. Gross margin is defined as revenue less operating expenses excluding depreciation and amortization. Gross margin is a measure that does not have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.
2. Cash flow is defined as "funds provided by operations," as reflected in the consolidated statement of cash flows. Cash flow and cash flow per share are measures that provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management utilizes these measures to assess the Company's ability to finance operating activities and capital expenditures. Cash flow and cash flow per share are not measures that have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.
3. EBITDA is defined as income before interest, taxes, depreciation and amortization. EBITDA is presented because it is frequently used by securities analysts and others for evaluating companies and their ability to service debt. EBITDA is a measure that does not have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.

Quarters Ended	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Total
(000s, except per share and unit data) (unaudited)	($)	($)	($)	($)	($)
2005					
Revenue	80,694	44,619	77,377	111,634	314,325
Gross margin (1)	32,437	7,630	25,694	43,336	109,098
Net income (loss)	21,670	(1,876)	12,947	27,372	60,113
Per share – basic	0.60	(0.05)	0.36	0.75	1.66
– diluted	0.59	(0.05)	0.35	0.75	1.64
Cash flow from operations (2)	26,015	2,280	18,503	33,794	80,592
Per share – basic	0.72	0.06	0.51	0.93	2.23
– diluted	0.71	0.06	0.51	0.92	2.20
EBITDA (3)	25,339	1,907	18,234	34,131	79,611
Per share – basic	0.70	0.05	0.50	0.94	2.20
– diluted	0.69	0.05	0.50	0.93	2.18
Capital expenditures	22,108	25,653	29,241	20,612	97,614
Working capital	49,103	22,301	12,962	39,396	39,396
Shareholders' equity	197,091	192,508	207,679	234,021	234,021
Fracturing spreads (#)					
Conventional fracturing	13	13	13	17	17
Coalbed methane	3	4	4	4	4
Total	16	17	17	21	21
Coiled tubing units (#)	11	11	11	11	11
Cementing units (#)	5	6	8	9	9

1. Gross margin is defined as revenue less operating expenses excluding depreciation and amortization. Gross margin is a measure that does not have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.
2. Cash flow is defined as "funds provided by operations," as reflected in the consolidated statement of cash flows. Cash flow and cash flow per share are measures that provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management utilizes these measures to assess the Company's ability to finance operating activities and capital expenditures. Cash flow and cash flow per share are not measures that have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.
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FOURTH QUARTER 2006 PERFORMANCE SUMMARY >

For the three months ended December 31, 2006, the Company:

Canadian Operations

Revenue from Canadian operations for the fourth quarter of 2006 decreased 17% to $79.8 million compared to $96.0 million in the same quarter of 2005. Canadian fracturing revenue for the quarter totaled $68.8 million, a decrease of 25% from the $91.5 million earned in the corresponding period of 2005. This decrease was primarily due to lower CBM and east central Alberta drilling activity compared to a year ago. During the fourth quarter of 2006, Calfrac completed 1,244 Canadian fracturing jobs for average revenue of $55,295 per job compared to 2,063 jobs for average revenue of $44,346 per job in the same period of 2005. Improved per job revenues were primarily due to a substantial increase in the amount of work completed in the deeper, more technically challenging basins of northern Alberta and northeastern British Columbia as well as higher book prices.

For the three months ended December 31, 2006, revenue from Canadian coiled tubing operations increased 195% to $5.2 million compared to $1.8 million for the same period in 2005. During the fourth quarter of 2006, the Company completed 1,922 jobs for average revenue of $2,694 per job compared to 1,723 jobs for average revenue of $1,020 per job in 2005. The increase in the average revenue per job was due primarily to the deployment of two coiled tubing units during the second quarter of 2006 into the deeper, more technically challenging basins of Western Canada. During the 2005 three-month period, the Company's Canadian coiled tubing fleet was focused on shallow gas operations, which traditionally earn lower revenue on a per job basis.

Revenue from Calfrac's cementing operations was $5.9 million, a 112% increase from the $2.8 million recorded in the fourth quarter of 2005. During the 2006 three-month period, the Company completed 480 jobs for average revenue of $12,234 per job compared to 289 jobs for average revenue of $9,604 per job in the comparable period of 2005. The improved financial and operating results were due primarily to an expanded equipment fleet serving the deeper basin markets of northern Alberta and northeastern British Columbia combined with a more integrated sales and marketing approach.

United States Operations

During the fourth quarter of 2006, revenue from the Company's United States operations doubled to $29.0 million from $14.4 million recorded in the same period of 2005. For the three months ended December 31, 2006, the Company completed 385 U.S. fracturing jobs for average revenue of $75,427 per job compared to 233 jobs for average revenue of $61,816 per job in 2005. The increase in total and per job revenues was due primarily to stronger activity levels in the Piceance Basin of western Colorado and a larger fleet of equipment operating in the United States in the fourth quarter of 2006 compared to the corresponding three-month period in 2005. The increase in the reported revenue from the Company's operations in the United States was partially offset by a stronger Canadian dollar.

Russian Operations

The Company's revenue from Russian operations in the fourth quarter of 2006 increased 30% to $9.4 million from $7.3 million in the third quarter of 2006 due primarily to higher fracturing activity levels. As Calfrac commenced Russian coiled tubing operations late in 2005, the prior year's fourth quarter results were not significant for analytical purposes.

GROSS MARGIN >

Fourth quarter consolidated gross margin was $34.5 million in 2006, a 20% decrease from the $43.3 million recorded in the corresponding period in 2005. As a percentage of revenue, consolidated gross margin was 29% for the three months ended December 31, 2006 compared to 39% a year ago. The decrease in consolidated gross margin was primarily a result of competitive pricing pressures in Canada and higher Russian revenues that have lower gross margins. This reduction was somewhat offset by improved financial results in the United States.

EXPENSES >

Operating Expenses

During the fourth quarter of 2006, operating costs increased 23% to $83.8 million from $68.3 million in the corresponding three-month period of 2005 due primarily to a larger fleet of equipment, increased levels of activity in the United States and Russia, and higher district expenses as a result of a larger scale of operations in the Company's three geographic markets. In 2006, Calfrac opened a new district office in Khanty-Mansiysk, Russia and expanded its Grande Prairie and Red Deer, Alberta bases to better serve the Company's growth into the deeper and more technical basins of northern Alberta and northeastern British Columbia.

SG&A Expenses

SG&A expenses were $7.9 million for the quarter ended December 31, 2006 compared to $9.1 million in 2005. As a percentage of revenue, SG&A expenses for the fourth quarter of 2006 declined to 7% compared to 8% in the corresponding period a year ago. The decrease in SG&A expenses during the fourth quarter of 2006 was primarily related to a reduction in bonus expenses due to lower Company profitability partially offset by higher SG&A costs related to the growing United States and Russian operations and an increase in stock-based compensation expenses. In the fourth quarter of 2006, stock-based compensation expenses were $0.9 million compared to $0.3 million in the same period of 2005.

Interest, Depreciation and Other Expenses

The Company recorded net interest expense of $702,000 for the quarter ended December 31, 2006 compared to $67,000 in the comparable period of 2005. During 2006, higher long-term debt levels were required to partially finance Calfrac's capital expenditures, which resulted in increased interest costs.

Depreciation expense in the fourth quarter of 2006 grew 61% to $7.6 million from $4.7 million in the corresponding quarter of 2005. The increase in depreciation expense is directly related to the Company's larger fleet of equipment operating in North America and Russia and the full impact of 2005 capital expenditures on depreciation expense.

INCOME TAX >

The Company recorded income tax expense of $3.2 million for the quarter ended December 31, 2006 compared to $2.0 million in the same period of 2005. Current tax expense for the quarter was $2.9 million compared to $0.8 million in 2005, which was largely attributed to profitability of the Company's U.S. operations. Calfrac recorded a future income tax expense of $0.3 million for the three months ended December 31, 2006 compared to $1.1 million recorded in the fourth quarter of 2005. The future income tax provision for the fourth quarters of 2006 and 2005 was primarily related to the drawdown of the Company's tax pools as a result of profitability in the quarter as well as the timing of deductibility of certain expenses for tax purposes.

NET INCOME >

During the fourth quarter of 2006, the Company's net income totaled $16.9 million or $0.47 per share (basic), a 38% decrease from the $27.4 million or $0.75 per share (basic) recorded in the same quarter a year ago. This decrease was primarily related to lower profitability in Canadian operations due to competitive pricing pressures and lower CBM activity levels.

CASH FLOW >

Cash flow from operations before changes in non-cash working capital for the three months ended December 31, 2006 decreased 25% to $25.5 million or $0.70 per share (basic) compared to $33.8 million or $0.93 per share (basic) in 2005.

LIQUIDITY AND CAPITAL RESOURCES >

During the 2006 three-month period, the Company incurred capital expenditures of $44.4 million compared to $20.6 million in the same period of 2005. The majority of these costs related to the completion of the Company's 2006 capital program, which included the deployment of two fracturing spreads and two cementing units during the quarter, as well as the construction of two conventional fracturing spreads, two coiled tubing units and four cementing units that are expected to be deployed in the first quarter of 2007.

OUTLOOK >

Calfrac believes that the long-term fundamentals for natural gas prices are strong, but concerns surrounding short-term natural gas pricing may negatively impact 2007 drilling activity levels in Western Canada, specifically in the CBM market. The Canadian drilling forecast for 2007 from the Petroleum Services Association of Canada estimates that 21,500 wells will be drilled during the year. Although this is a reduction from the record drilling levels experienced in the last several years, it still represents historically strong activity levels.

The Company is focused on the growing pressure pumping markets of the deeper, more technical areas of the Western Canadian Sedimentary Basin. Despite the weakness in near-term natural gas prices, activity levels in the deeper regions of northern Alberta and northeastern British Columbia were strong throughout 2006 and are expected to remain steady in 2007. New coiled tubing and cementing equipment related to the Company's 2006 capital program was deployed in the fourth quarter and additional units are expected to become operational by the end of the first quarter of 2007 to service these deeper regions. Calfrac anticipates that the low levels of activity experienced in the Canadian CBM market during the past year will continue to be mitigated by the Company's contracts related to two fracturing spreads servicing these operations. Calfrac also expects that the utilization of its shallow gas fracturing spreads will be strong for at least the first quarter of 2007 as a result of its contractual relationship with a major customer.

The strong performance of Calfrac's United States fracturing operations was a major driver of the Company's 2006 financial results. Unlike the Canadian market, drilling activity levels in the U.S. Rocky Mountain region have remained robust, primarily in the Piceance Basin of western Colorado. Fracturing activity in eastern Colorado and the Denver Julesberg Basin gained momentum throughout the year with the number of jobs increasing during the fourth quarter of 2006. Calfrac's newest operating base located in Beebe, Arkansas will open by the end of the first quarter of 2007, thereby further diversifying the Company's fracturing operations within the United States market. One multi-pumper fracturing spread will serve the Fayetteville and Arkoma Basins in Arkansas as well as eastern Oklahoma under the terms of a long-term contract with a leading U.S. oil and gas company. From this operating base, there is potential for additional growth as more equipment is deployed into the area to better serve this new market. In 2007, Calfrac anticipates that this important geographic segment will continue to generate strong financial and operating results.

During the last half of 2006, the Company operated one fracturing spread and three coiled tubing units in Russia. In early 2007, an additional fracturing spread was deployed to a new operating base in Purpe, Western Siberia. Two additional coiled tubing units are expected to be operational by the end of the first quarter of 2007. Building on the momentum of Russia's improved operating and financial performance during the fourth quarter of 2006, Calfrac believes that these operations have attained sufficient critical mass and are well positioned for future growth and profitability. The expanded equipment fleet, combined with the Company's relationships with two of Russia's largest oil and gas companies, is expected to drive improved financial and operating performance from this geographic segment throughout the upcoming year and provide a more significant contribution to Calfrac's consolidated financial results.

The Company's financial position was strengthened further as a result of the closing of its recent US$135.0 million debt financing. The offering provides the Company with additional financial flexibility to grow organically, and alternatively, may also allow the Company to pursue strategic acquisition opportunities that may arise in the future.

Calfrac will continue to maximize equipment utilization and profitability by redeploying equipment to higher activity regions within its global operating reach.

ADVISORIES >

Forward-Looking Statements

In order to provide Calfrac shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of Calfrac's future plans and operations, certain statements made in this Annual Report may contain words such as "anticipate," "can," "may," "expect," "believe," "intend," "forecast," or similar words suggesting future outcomes or statements regarding an outlook, which constitute forward-looking statements or information ("forward-looking statements"). These statements may include, but are not limited to, future capital expenditures, future financial resources, future oil and gas well activity, outcome of specific events and trends in the oil and gas industry. Readers are cautioned that the foregoing list of significant factors is not exhaustive. These statements are derived from certain assumptions and analysis made by the Company based on its experience and interpretation of historical trends, current conditions, expected future developments and other factors that it believes are appropriate in the circumstances. These statements are subject to a number of known and unknown risks and uncertainties, which are discussed previously in this report, that could cause actual results to differ materially from the Company's expectations. Although Calfrac believes that the expectations presented by these forward-looking statements are reasonable, there can be no assurances that actual results or developments anticipated by the Company will be realized or such expectations will prove to be correct. Furthermore, the forward-looking statements contained in this Annual Report are made as at the date of this report and Calfrac assumes no obligation to update publicly, except as required by applicable securities laws, any such forward-looking information whether as a result of new information, future events or otherwise. The forward-looking statements contained in this Annual Report are expressly qualified under this cautionary statement.

Non-GAAP Measures

Certain measures in this Annual Report do not have any standardized meaning as prescribed under Canadian GAAP, such as gross margin, cash flow from operations, cash flow, cash flow per share (basic), cash flow per share (diluted), EBITDA, EBITDA per share (basic) and EBITDA per share (diluted), and therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other entities. These measures have been described and presented in this Annual Report in order to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management's use of these measures has been disclosed further in this Annual Report as these measures are discussed and presented.

ADDITIONAL INFORMATION >

Further information regarding Calfrac Well Services Ltd. can be accessed on the Company's website at www.calfrac.com or under the Company's public filings found at www.sedar.com.

D.R. Ramsay

DOUGLAS R. RAMSAY
President &
Chief Executive Officer

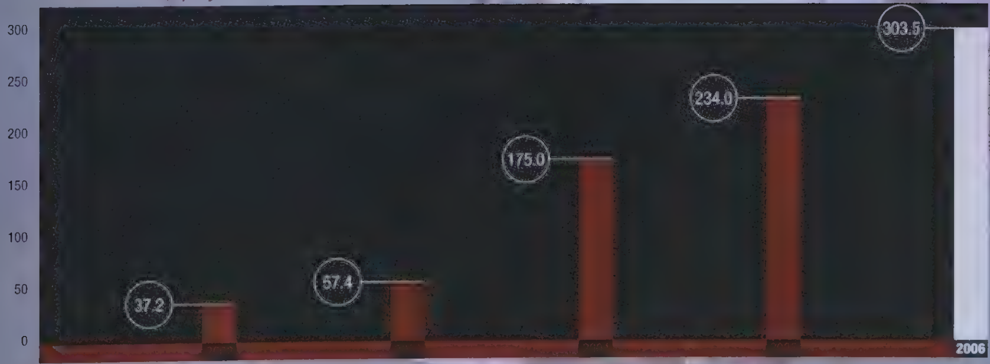
TOM J. MEDVEDIC
Vice President, Finance &
Chief Financial Officer

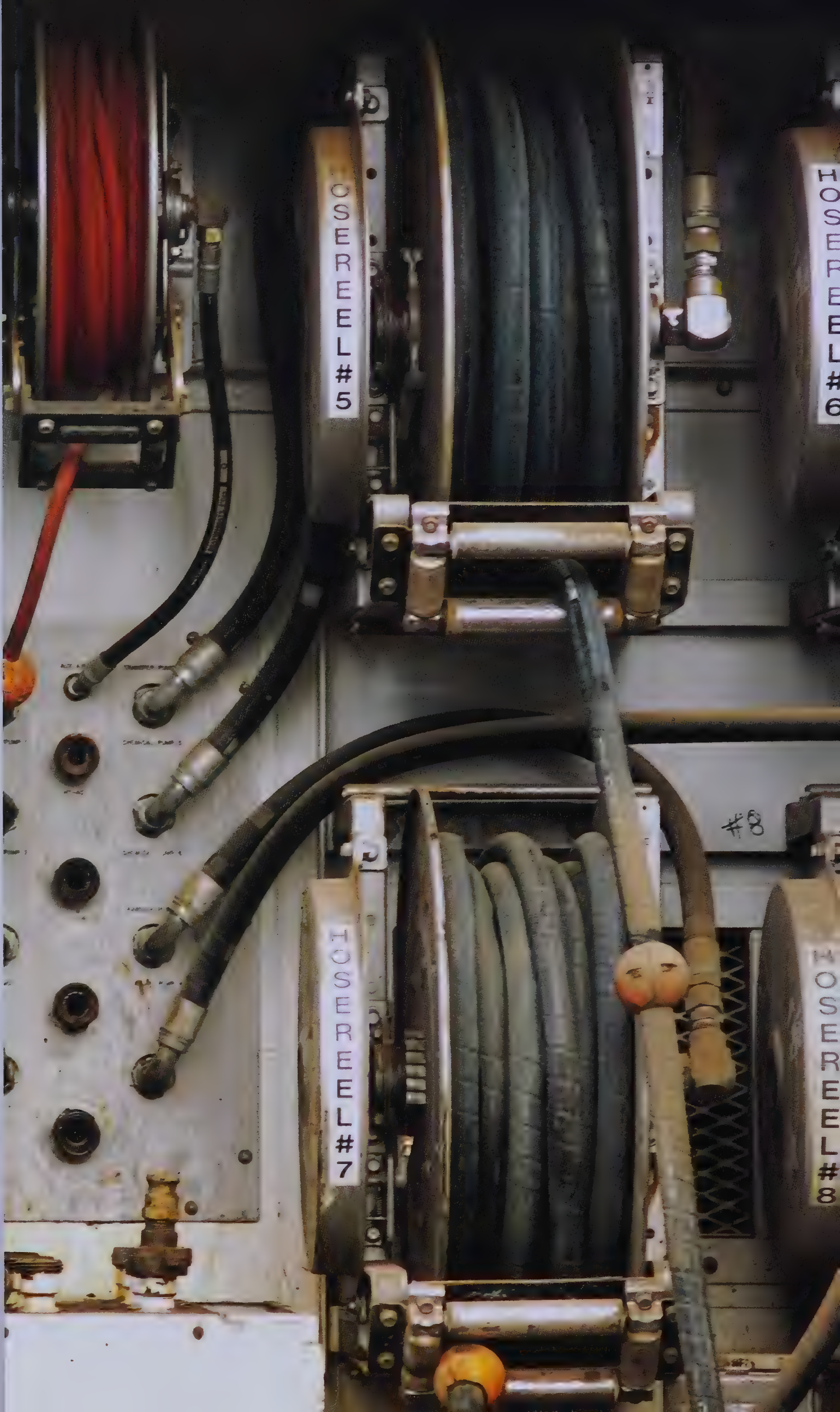
February 26, 2007
Calgary, Alberta

A Global Strategy:
Growth

We will build leading positions in our industry's fastest growing service lines and geographic markets.

Shareholders' Equity ($ millions)

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To the Shareholders of Calfrac Well Services Ltd.

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies set out in the accompanying notes to the consolidated financial statements. When necessary, management has made informed judgements and estimates in accounting for transactions that were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles ("GAAP") appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has prepared the Management's Discussion and Analysis ("MD&A"). The MD&A is based on the Company's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the years ended December 31, 2006 and December 31, 2005.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, was engaged, as approved by a vote of shareholders at the Company's most recent annual meeting, to audit the consolidated financial statements in accordance with Canadian GAAP and provide an independent professional opinion.

The Audit Committee of the Board of Directors, which is comprised of three independent directors who are not employees of the Company, has discussed the consolidated financial statements, including the notes thereto, with management and the external Auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

D.R. Ramsay

DOUGLAS R. RAMSAY
President &
Chief Executive Officer

TOM J. MEDVEDIC
Vice President, Finance &
Chief Financial Officer

February 26, 2007
Calgary, Alberta

To the Shareholders of Calfrac Well Services Ltd.

We have audited the consolidated balance sheets of Calfrac Well Services Ltd. as at December 31, 2006 and 2005 and the consolidated statements of operations and retained earnings and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

February 26, 2007
Calgary, Alberta

Consolidated Balance Sheets

As at December 31, (000s)	2006 ($)	2005 ($)
Assets		
Current assets		
Cash and cash equivalents (note 4)	**5,580**	–
Accounts receivable	**84,481**	91,693
Inventory	**13,387**	6,145
Prepaid expenses and deposits	**7,463**	2,219
	110,911	100,057
Capital assets (note 3)	**327,832**	198,302
Long-term investment	**396**	324
Goodwill	**6,003**	6,003
Future income taxes (note 9)	**9,048**	32,129
	454,190	336,815
Liabilities		
Current liabilities		
Bank indebtedness (note 4)	**–**	10,813
Accounts payable and accrued liabilities (note 11)	**77,344**	46,748
Income taxes payable	**2,342**	485
Current portion of long-term debt (note 5)	**–**	2,615
	79,686	60,661
Long-term debt (note 5)	**60,000**	8,000
Other long-term liabilities	**4,743**	6,306
Deferred credit (note 10)	**6,251**	27,827
	150,680	102,794
Shareholders' equity		
Capital stock (note 6)	**139,841**	138,767
Shares held in trust (note 7)	**(3,869)**	(1,385)
Contributed surplus	**4,393**	2,317
Retained earnings	**163,145**	94,322
	303,510	234,021
	454,190	336,815

Commitments and contingencies (notes 12 and 15)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

JAMES S. BLAIR
Director

GREGORY S. FLETCHER
Director

Consolidated Statements of Operations and Retained Earnings

Years Ended December 31,	2006	2005
(000s, except per share data)	($)	($)
Revenue	**426,418**	314,325
Expenses		
Operating	**291,056**	205,227
Selling, general and administrative	**28,350**	29,467
Depreciation	**25,699**	17,143
Amortization of intangibles	**–**	36
Interest expense (income)	**2,341**	(129)
Equity share of income from long-term investments	**(72)**	(324)
Foreign exchange (gains) losses and other	**(2,516)**	192
Loss on disposal of capital assets	**67**	152
	344,925	251,764
Income before income taxes	**81,493**	62,561
Income taxes (note 9)		
Current	**7,538**	1,069
Future	**1,505**	1,400
	9,043	2,469
Income before non-controlling interest	**72,450**	60,092
Non-controlling interest	**–**	(21)
Net income for the year	**72,450**	60,113
Retained earnings, beginning of year	**94,322**	37,832
Dividends	**(3,627)**	(3,623)
Retained earnings, end of year	**163,145**	94,322
Earnings per share (note 6)		
Basic	**2.00**	1.66
Diluted	**1.98**	1.64

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31,	2006	2005
(000s)	($)	($)
Cash provided by (used in):		
Operating activities		
Net income for the year	**72,450**	60,113
Items not involving cash		
Depreciation and amortization	**25,699**	17,179
Stock-based compensation	**2,283**	2,093
Equity share of income from long-term investments	**(72)**	(324)
Loss on disposal of capital assets	**67**	152
Future income taxes	**1,505**	1,400
Non-controlling interest	**–**	(21)
Funds provided by operations	**101,932**	80,592
Net change in non-cash operating assets and liabilities (note 14)	**8,586**	(21,587)
	110,518	59,005
Financing activities		
Issue of long-term debt (note 5)	**56,583**	12,013
Long-term debt repayments	**(7,198)**	(9,000)
Dividends	**(3,627)**	(3,623)
Purchase of common shares (note 7)	**(3,869)**	(1,385)
Net proceeds on issuance of common shares	**867**	1,867
	42,756	(128)
Investing activities		
Purchase of capital assets	**(155,478)**	(97,614)
Proceeds on disposal of capital assets	**4,289**	52
Acquisition of subsidiary, net of cash acquired	**–**	(3,000)
Net change in non-cash working capital from purchase of capital assets	**14,308**	3,042
	(136,881)	(97,520)
Increase (decrease) in cash position	**16,393**	(38,643)
(Bank indebtedness) cash and cash equivalents, beginning of year	**(10,813)**	27,830
Cash and cash equivalents (bank indebtedness), end of year	**5,580**	(10,813)

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Calfrac Well Services Ltd. (the "Company") was formed through the amalgamation of Calfrac Well Services Ltd. (predecessor company originally incorporated on June 28, 1999) and Denison Energy Inc. on March 24, 2004 under the Business Corporations Act (Alberta). The Company provides specialized oilfield services, including fracturing, coiled tubing, cementing and other well stimulation services to the oil and gas industries in Canada, the United States and Russia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations that have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Principles of Consolidation

These financial statements include the accounts of the Company and its wholly owned subsidiaries in the United States and Russia.

(b) Foreign Currency Translation

The financial accounts of the Company's U.S. and Russian subsidiaries are translated into Canadian currency using the temporal method of translation. Under the temporal method, monetary items are translated at the rate of exchange at the balance sheet date, while non-monetary items are translated at the historical rate applicable on the date of the transaction giving rise to the non-monetary balance. Revenues and expenses are translated at the monthly average exchange rates. Gains or losses in translation are recognized in income as they occur.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit, short-term investments with original maturities within 90 days and marketable securities that are carried at the lower of cost and market value.

(d) Inventory

Inventory consists of chemicals, nitrogen, carbon dioxide, cement and proppants used to stimulate wells and is stated at the lower of cost, determined on a first-in, first-out basis and net realizable value.

(e) Capital Assets

Capital assets are recorded at cost and are depreciated over their estimated economic useful lives using the straight-line method at the following annual rates:

Field equipment	10 years
Buildings	20 years
Shop, office and other equipment	5 years
Computers and computer software	3 years
Leasehold improvements	Term of the lease

(f) Long-Term Investments

The Company equity accounts for its investment in shares of a company over which it has significant influence. Under the equity method of accounting, investments are carried at their original cost plus the Company's cumulative share of earnings, less any dividends received.

(g) Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of net assets acquired. Intangible assets are recognized apart from goodwill and are amortized over their estimated useful lives. Goodwill is assessed by the Company for impairment at least annually. The impairment test is carried out in two steps. In the first step, the carrying amount is compared with its fair value. When the fair value exceeds its carrying amount, goodwill is considered not to be impaired and performance of the second step of the impairment test is unnecessary. The second step compares the implied fair value of the goodwill with its carrying amount to measure the amount of the impairment loss, if any.

(h) Income Taxes

The Company follows the liability method of determining income taxes where future income taxes are determined based on temporary differences between the tax bases of assets or liabilities and their carrying amounts in the financial statements.

(i) Revenue Recognition

Revenue is recognized as services are completed and when delivery occurs for products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Stock-Based Compensation Plans

The Company recognizes compensation cost for the fair value of stock options granted. Under this method, the Company records the fair value of stock option grants over their vesting period as a charge to compensation expense and a credit to contributed surplus.

(k) Variable Interest Entities

Canadian Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("VIEs") requires consolidation of a VIE where an entity absorbs a majority of a VIE's losses, receives a majority of its returns, or both. Under these rules, it was determined that the Company is required to consolidate the Trust, which was established to purchase and hold Company stock as described in note 7.

(l) Comparatives

Certain comparatives have been reclassified to conform with the financial statement presentation adopted in the current year.

3. CAPITAL ASSETS

As at December 31,	2006	2005
(000s)	($)	($)
Cost		
Assets under construction	**78,080**	38,073
Field equipment	**290,445**	188,861
Buildings	**17,375**	10,432
Land	**9,252**	5,322
Shop, office and other equipment	**3,379**	2,248
Computers and computer software	**4,265**	2,866
Leasehold improvements	**830**	812
	403,626	248,614
Accumulated Depreciation		
Assets under construction	**–**	–
Field equipment	**69,805**	46,343
Buildings	**1,336**	641
Land	**–**	–
Shop, office and other equipment	**1,510**	1,013
Computers and computer software	**2,821**	2,065
Leasehold improvements	**322**	250
	75,794	50,312
Net Book Value		
Assets under construction	**78,080**	38,073
Field equipment	**220,640**	142,518
Buildings	**16,039**	9,791
Land	**9,252**	5,322
Shop, office and other equipment	**1,869**	1,235
Computers and computer software	**1,444**	801
Leasehold improvements	**508**	562
	327,832	198,302

4. BANK INDEBTEDNESS

The Company has an operating loan facility of $25,000 bearing interest at the bank's prime rate, of which $3,407 was drawn at December 31, 2006 (including $626 of uncleared cheques). The facility is secured by a General Security Agreement over all Canadian assets of the Company. The balance outstanding on the facility has been netted against cash on deposit in these financial statements.

5. LONG-TERM DEBT

(000s)	2006 ($)	2005 ($)
Extendible revolving capital equipment facility totaling $125,000 bearing interest at the bankers' acceptance rate plus stamping fees of 1.25%, requiring fixed principal payments of $2,400 per quarter commencing March 31, 2008, and a final payment of $24,000 on December 31, 2011, secured by a General Security Agreement over all Canadian assets of the Company	**60,000**	–
Capital equipment facility totaling $50,000 bearing interest at the bankers' acceptance rate plus stamping fees of 1.375% requiring a fixed principal payment of $167 per month plus interest, secured by a General Security Agreement over all Canadian assets of the Company	–	10,000
Debenture bearing interest at 8.95% requiring payment of accrued interest monthly plus a fixed principal payment of $54 per month, secured by charges on specific equipment	–	321
Loan bearing interest at 6% requiring blended monthly payments of $25, secured by charges on specific equipment	–	294
	60,000	10,615
Current portion of long-term debt	–	(2,615)
	60,000	8,000

The term and commencement of principal repayments on the $125,000 extendible revolving capital facility may be extended by one year on each anniversary date at the request of the Company and acceptance by the lenders. At December 31, 2006, the Company had $65,000 of undrawn credit available under this facility. On February 13, 2007, the Company closed a US$135,000 debt offering and the extendible revolving capital facility was fully repaid. In conjunction with this offering, the revolving term credit facility was reduced to $65,000 (see note 18).

Scheduled principal repayments required in each year to retire long-term debt as at December 31, 2006 are as follows (assuming the facility is not extended on the next anniversary date being December 5, 2007):

(000s)	($)
2008	9,600
2009	9,600
2010	9,600
2011	31,200
	60,000

6. CAPITAL STOCK

Authorized capital stock consists of an unlimited number of common shares.

The continuity of issued common shares and related values are as follows:

	Shares (#)	Amount ($000s)
December 31, 2004	18,107,277	136,473
Two-for-one split, February 17, 2005	18,107,277	–
Issued upon exercise of stock options	118,722	2,294
December 31, 2005	36,333,276	138,767
Issued upon exercise of stock options	**55,132**	**1,074**
December 31, 2006	**36,388,408**	**139,841**

On February 7, 2005, the shareholders of the Company voted in favour of a two-for-one subdivision of the Company's common shares that took effect on February 17, 2005. Comparative per share information has been restated to reflect the two-for-one split.

The weighted average number of common shares outstanding for the year ended December 31, 2006 was 36,286,332 basic and 36,547,182 diluted (2005 - 36,216,499 basic and 36,600,855 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options issued by the Company and the shares held in trust (see note 7).

7. SHARES HELD IN TRUST

The Company has established a Trust to purchase and hold Company stock on behalf of certain employees who have elected to receive a portion of their annual bonus entitlement in the form of Company shares. During 2006, 113,508 shares were purchased on the open market at a cost of $3,869 (2005 - 43,637 shares at a cost of $1,385). These shares vest with employees in March of the year following their purchase at which time they are distributed to those individuals participating in the plan. These shares are not considered outstanding for purposes of calculating basic earnings per share, but are included in the calculation of diluted earnings per share.

8. STOCK-BASED COMPENSATION

(a) Stock Options

Continuity of Stock Options	2006		2005	
	Options	Average Exercise Price	Options	Average Exercise Price
	(#)	($)	(#)	($)
Outstanding, January 1	**818,578**	**18.39**	840,200	16.07
Granted during the year	**776,550**	**25.89**	140,100	29.92
Exercised for common shares	**(55,132)**	**15.73**	(118,722)	15.73
Forfeited	**(34,200)**	**27.18**	(43,000)	17.97
Balance, December 31	**1,505,796**	**22.15**	818,578	18.39

The number of options outstanding at January 1, 2005 has been adjusted to reflect the two-for-one common share split on February 17, 2005.

All stock options vest equally over three years and expire three and one-half years from the date of grant. The estimated fair value of options granted is determined by using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4%, average expected life of 2.83 years, expected volatility of 34% to 36% and expected dividends of $0.10 per annum. This amount is charged to compensation expense over the vesting period. When stock options are exercised, the proceeds, together with the amount of compensation expense previously recorded in contributed surplus, is added to capital stock.

(b) Stock Units

Commencing in 2004, the Company began granting deferred stock units to its outside directors. These units vest one year from the date of grant and are settled in either cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the deferred stock units is recognized equally over the one-year vesting period, based on the current market price of the Company's shares. During 2006, $328 of compensation expense was recognized for deferred stock units (2005 – $1,860).

Commencing in 2004, the Company began granting performance stock units to the Company's most senior officers who are not included in the stock option plan. The amount of the grants earned is linked to corporate performance and vest one year from the date of grant. As with the deferred stock units, performance stock units are settled in either cash or Company shares purchased on the open market. During 2006, $265 of compensation expense was recognized for performance stock units (2005 – $395).

Changes in the Company's obligations under the deferred and performance stock unit plans, which arise from fluctuations in the market value of the Company's shares underlying these compensation programs, are recorded as the share value changes.

9. INCOME TAXES

The following table summarizes the income tax effect of temporary differences that give rise to the future income tax asset at December 31:

As at December 31,	2006	2005
(000s)	($)	($)
Capital assets	**(14,715)**	9,038
Canadian exploration expenses	**11,081**	7,668
Losses carried forward	**5,405**	7,778
Deferred compensation payable	**2,939**	2,486
Deferred financing and share issue costs	**2,269**	2,328
Other	**2,069**	2,831
	9,048	32,129

9. INCOME TAXES (continued)

The provision for incomes taxes in the statement of operations and retained earnings varies from the amount that would be computed by applying the expected tax rate of 32.12% (2005 – 33.62%) to income before income taxes. The principal reasons for differences between such expected income tax expense and the amount actually recorded are as follows:

As at December 31, (000s)	2006 ($)	2005 ($)
Income before tax	**81,493**	62,561
Income tax rate (%)	**32.12**	33.62
Computed expected income tax expense	**26,176**	21,033
Increase (decrease) in income taxes resulting from:		
Drawdown of deferred credit	**(20,811)**	(19,782)
Non-deductible expenses	**1,811**	910
Foreign withholding taxes	**1,071**	244
Foreign tax rate differentials	**1,333**	411
Prior year tax losses and future tax benefits of subsidiaries recognized in the current year	**(673)**	–
Future income tax adjustment from tax rate reduction	**87**	–
Translation of foreign subsidiaries	**289**	–
Tax losses and future tax benefits of foreign subsidiaries not recognized	**–**	1,102
Large corporations tax	**–**	234
Adjustments to Denison tax pools	**–**	(1,670)
Other	**(240)**	(13)
	9,043	2,469

10. DEFERRED CREDIT

On the amalgamation of Denison Energy Inc. ("Denison") and the Company on March 24, 2004, a future income tax asset associated with Denison's income tax pools was recognized in the accounts. Denison had tax pools of approximately $220,000 for federal income tax purposes and $170,000 for provincial income tax purposes. After tax affecting these pools at applicable federal and provincial income tax rates, a future income tax asset of $70,771 was recorded. The fair value paid for the tax pools acquired was estimated to be $11,000. The difference between the future income tax asset recognized and the fair value of these tax pools was recorded as a deferred credit in the amount of $59,771.

11. RELATED PARTY TRANSACTIONS

During 2006, the Company purchased $26,890 (2005 – $17,487) of products and services from a company in which it holds a 30% equity interest (see also note 2 (f)). At December 31, 2006, accounts payable included $7,234 of indebtedness to the related party (December 31, 2005 – $2,941).

12. COMMITMENTS

The Company has lease commitments for premises, equipment, vehicles and storage facilities under agreements requiring aggregate minimum payments over the next five years, from December 31, 2006, as follows:

(000s)	($)
2007	6,649
2008	3,631
2009	3,057
2010	2,795
2011	2,568
Thereafter	7,437
	26,137

The Company has obligations for the purchase of products and services over the next two years that total approximately $18.4 million.

13. FINANCIAL INSTRUMENTS

The Company's financial instruments that are included in the consolidated balance sheet are comprised of cash, accounts receivable, all current liabilities and long-term debt.

13. **FINANCIAL INSTRUMENTS (continued)**

(a) Fair Values of Financial Assets and Liabilities

The fair values of financial instruments that are included in the consolidated balance sheet, except bank loans and long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of long-term debt is not materially different from its carrying amounts since the interest rates approximate a market rate of interest.

(b) Credit Risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

(c) Interest Rate Risk

The Company is exposed to interest rate cash flow risk on debt subject to floating interest rates. The Company's effective interest rate for the year ended December 31, 2006 was 5.75% (December 31, 2005 – 5.14%).

14. **SUPPLEMENTAL INFORMATION**

Change in non-cash operating assets and liabilities are as follows:

Years Ended December 31,	**2006**	2005
(000s)	($)	($)
Accounts receivable	**3,105**	(30,976)
Inventory	**(7,242)**	(3,457)
Prepaid expenses and deposits	**(5,244)**	(856)
Accounts payable and accrued liabilities	**17,673**	10,910
Income taxes payable	**1,857**	625
Other long-term liabilities	**(1,563)**	2,167
	8,586	(21,587)
Interest paid	**2,418**	359
Income taxes paid	**5,681**	443

15. **CONTINGENCIES**

Greek Operations

As a result of the acquisition and amalgamation with Denison in 2004, the Company assumed certain legal obligations relating to Denison's Greek operations.

In 1998, a consortium in which a Greek subsidiary of Denison participated, terminated employees in Greece as a result of the cessation of its oil and gas operations in that country. Several groups of employees have filed claims alleging that their termination was invalid and that their severance pay was improperly determined.

In 1999, the largest group of plaintiffs received a ruling from the Athens Court of First Instance that their termination was invalid and that compensation was due to the employees. This decision was appealed to the Athens Court of Appeal, which allowed the appeal in 2001 and annulled the above-mentioned decision of the Athens Court of First Instance. The said group of employees has filed an appeal with the Supreme Court of Greece, which is scheduled to be heard on May 29, 2007.

Several other smaller groups of employees have filed similar cases in various courts in Greece. Some of these cases were heard in 2004. In general, the finding of these courts has been that the termination of the employees was valid and in some instances have awarded the employees immaterial amounts of additional compensation and in one case have referred the matter back to a lower court to be reheard based on more specific grounds.

As a result of the above-mentioned court hearings, a majority of the number of former employees with respect to these smaller groups of claimants have received payment of the immaterial amounts awarded to them and waived their right of recourse to the Supreme Court of Greece. The remainder have filed an appeal to the Supreme Court of Greece or have advised that they are waiting for the outcome of the May 29, 2007 hearing of the Supreme Court of Greece before proceeding further.

The direction and financial consequence of the potential decision in these actions cannot be determined at this time.

Russian Value Added Taxes

The Company is involved in a dispute with the Russian tax authorities regarding the recovery of Value Added Taxes ("VAT"), which it has paid on the importation of equipment into Russia. The amount in dispute is the equivalent of $4,500, which is included in accounts receivable at December 31, 2006. The Company has successfully defended similar VAT challenges in the past and believes the matter will be resolved in its favour within the coming months.

16. SEGMENTED INFORMATION

The Company's activities are conducted in three geographic markets: Canada, the United States and Russia. All activities are related to fracturing, coiled tubing, cementing and well stimulation services for the oil and gas industry.

	Canada	Russia	United States	Intersegment Eliminations	Consolidated
(000s)	($)	($)	($)	($)	($)
Year Ended December 31, 2006					
Revenue	**318,018**	**22,123**	**86,277**	**–**	**426,418**
Operating income (loss) (1)	**81,033**	**(2,389)**	**28,368**	**–**	**107,012**
Segmented assets (2)	**438,879**	**66,012**	**35,547**	**(86,248)**	**454,190**
Capital expenditures	**114,402**	**35,615**	**5,216**	**245**	**155,478**
Goodwill	**6,003**	**–**	**–**	**–**	**6,003**
Year Ended December 31, 2005					
Revenue	280,068	1,212	33,045	–	314,325
Operating income (loss) (1)	77,468	(2,489)	4,652	–	79,631
Segmented assets (2)	336,018	14,061	21,133	(34,397)	336,815
Capital expenditures	85,566	10,175	6,021	(4,148)	97,614
Goodwill	6,003	–	–	–	6,003

(1) Operating income (loss) is defined as revenue less operating expenses (excluding depreciation and amortization) and selling, general and administration expenses.

(2) Assets operated by the Company's U.S. subsidiary were acquired through a lease arrangement with the Canadian parent company. The cost base of these assets was $63,274 at December 31, 2006 ($35,149 at December 31, 2005).

The following table sets forth consolidated revenue by service line:

Years Ended December 31,	2006	2005
(000s)	($)	($)
Fracturing	**374,096**	295,782
Coiled Tubing	**30,689**	10,149
Cementing	**21,633**	8,394
	426,418	314,325

17. RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS TO UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which, in most respects, conforms to U.S. GAAP. Any differences in accounting principles between Canadian GAAP and U.S. GAAP as they apply to the Company are not material, except as described below. The adjustments below are measurement differences only and do not reflect any disclosure differences that may exist between Canadian GAAP and U.S. GAAP.

The application of U.S. GAAP would not affect consolidated net income or the consolidated balance sheets as reported, except as discussed below.

(a) Stock-Based Compensation

Under Canadian GAAP, the Company recognizes compensation cost for the fair value of stock option grants over the vesting period of these grants as a charge to compensation expense and a credit to contributed surplus. The Company also recognizes compensation cost, over their vesting period, for the fair value of deferred stock units and performance stock units, estimated based on the current market price of the Company's shares.

Effective January 1, 2006, the Company adopted, using the modified prospective transitional provisions, the revised standards outlined under SFAS 123R "Share-Based Payment." Previously, the Company followed SFAS 123 "Accounting for Stock-Based Compensation," which determined stock-based compensation cost for both the stock options and stock units using the same method as under Canadian GAAP with no adjustments to reported net income for the year ended December 31, 2005.

Under SFAS 123R, the Company is required to determine and incorporate a forfeiture multiplier into its calculation of stock-based compensation cost for its stock options and stock units. Under Canadian GAAP, the Company accounts for forfeitures as they occur. The Company estimates that the impact of any forfeiture multiplier would not result in a significant difference between Canadian and U.S. GAAP.

In addition, the fair value of the Company's stock units would be estimated using a Black-Scholes option pricing model, remeasured at each reporting date, as opposed to valuing the stock units based on the current market price of the Company's shares. The Company estimates that the impact of remeasuring stock units outstanding using the Black-Scholes model would not result in a significant difference between Canadian and U.S. GAAP.

17. RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS TO UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

(b) Variable Interest Entities

The variable interest entities ("VIE") accounting standard under Canadian GAAP is similar to U.S. GAAP FIN 46R, "Consolidation of Variable Interest Entities." Under the Canadian GAAP transitional provisions, adoption was required for years commencing January 1, 2005, whereas under U.S. GAAP, adoption was required one year earlier commencing on January 1, 2004. Under Canadian GAAP, the Company identified and consolidated one VIE for the years ended December 31, 2006 and 2005, which also would have been consolidated for U.S. GAAP purposes.

(c) Future Income Taxes

The future income tax accounting standard under Canadian GAAP is similar to U.S. GAAP SFAS 109, "Accounting for Income Taxes." Pursuant to Canadian GAAP, substantively enacted tax rates are used to calculate future income tax, whereas U.S. GAAP applies enacted tax rates. There are no differences for the years ended December 31, 2006 and 2005 relating to income tax rate differences.

(d) Comprehensive Income

U.S. GAAP requires the presentation of net income and comprehensive income. Comprehensive income includes net income plus other comprehensive income items as specifically identified by U.S. GAAP. The Company currently has no financial items that would be included as other comprehensive income, and therefore, net income and comprehensive income are equivalent.

(e) Statements of Cash Flows and Operations

The differences between Canadian GAAP and U.S. GAAP have not resulted in any significant variances concerning the consolidated statements of cash flows as reported, except that under U.S. GAAP the presentation of funds from operations as a sub-total in the operating activities section of the consolidated statements of cash flows would not be permitted.

In addition, under Canadian GAAP, bank overdrafts used to manage day-to-day cash can be classified as cash and cash equivalents. Under U.S. GAAP, bank overdrafts are liabilities that should be considered a form of short-term financing and classified as cash flows from financing activities. The effect of this is an outflow of cash from financing activities of $8,658 for the year ended December 31, 2006 (2005 inflow of cash from financing activities of $12,065). As a result, the consolidated balance sheet would be adjusted to reflect cash and cash equivalents of $8,987 (2005 – $1,252) and bank indebtedness of $3,407 (2005 – $12,065).

(f) Recently Issued Accounting Pronouncements

The following are standards and interpretations that have been issued by the Financial Accounting Standards Board ("FASB"), which are not yet in effect for the years presented but would comprise U.S. GAAP when implemented:

In July 2006, FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109." FIN 48 provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS 109, "Accounting for Taxes." FIN 48 prescribes a threshold condition that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of these uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has not yet determined the impact on the financial position, results of operations or cash flows from FIN 48.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – An Amendment of FASB Statement Nos. 133 and 140" ("SFAS 155"). SFAS 155 simplifies the accounting of certain hybrid financial instruments under SFAS 133 by permitting fair value remeasurement for financial instruments containing an embedded derivative that otherwise would require separation of the derivative from the financial instrument. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. The Company does not expect that SFAS 155 will have a material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. The statement is effective for fair value measures already required or permitted by other standards for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company has not yet determined the impact on its financial position, results of operations or cash flows from SFAS 157.

18. SUBSEQUENT EVENTS

On February 13, 2007, the Company completed a private placement of unsecured senior notes for an aggregate amount of US$135,000. The notes are due in full on February 15, 2015 and bear interest at 7.75% payable semi-annually. A portion of the proceeds of the offering was used to repay the Company's existing operating and revolving term credit facilities. In conjuction with this offering, the Company's existing revolving term credit facility was reduced from $125,000 to $65,000.

Historical Review

Years Ended December 31,	2006	2005	2004	2003	2002
(000s, except per share and unit data)	($)	($)	($)	($)	($)
Financial Results					
Revenue	**426,418**	314,325	241,379	156,558	96,066
Gross margin (1)	**135,362**	109,098	83,783	53,090	31,271
Net income	**72,450**	60,113	45,630	19,649	10,024
Per share – basic (2)	**2.00**	1.66	1.45	1.01	0.52
– diluted (2)	**1.98**	1.64	1.45	1.01	0.52
Cash flow from operations (3)	**101,932**	80,592	58,946	30,309	18,138
Per share – basic (2)	**2.81**	2.23	1.87	1.56	0.93
– diluted (2)	**2.79**	2.20	1.87	1.56	0.93
EBITDA (4)	**109,533**	79,611	64,027	41,826	23,923
Per share – basic (2)	**3.02**	2.20	2.03	2.15	1.23
– diluted (2)	**3.00**	2.18	2.03	2.15	1.23
Capital expenditures	**155,478**	97,614	51,327	24,722	22,362
Financial Position					
Current assets	**110,911**	100,057	88,630	48,350	31,230
Total assets	**454,190**	336,815	266,196	130,319	97,666
Working capital	**31,225**	39,396	52,343	6,764	(21,641)
Long-term debt	**60,000**	8,000	3,958	23,781	1,706
Future income tax asset (liability)	**9,048**	32,129	53,311	(7,521)	(5,896)
Shareholders' equity	**303,510**	234,021	174,956	57,431	37,193
Common Share Data (2)					
Common shares outstanding (#)					
At December 31	**36,388**	36,333	36,214	n/a	n/a
Weighted average	**36,286**	36,216	31,542	n/a	n/a
Share trading					
High ($)	**46.21**	41.00	23.75	n/a	n/a
Low ($)	**18.07**	22.50	11.60	n/a	n/a
Close ($)	**22.10**	40.30	23.63	n/a	n/a
Volume (#)	**39,272**	26,774	14,150	n/a	n/a
	(#)	(#)	(#)	(#)	(#)
Operating Results					
Fracturing spreads					
Conventional fracturing	**21**	17	12	9	9
Coalbed methane	**4**	4	2	1	–
Total	**25**	21	14	10	9
Coiled tubing units	**14**	11	11	11	6
Cementing units	**13**	9	4	–	–

1. Gross margin is defined as revenue less operating expenses excluding depreciation and amortization. Gross margin is a measure that does not have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.
2. Historical per share information has been adjusted for the two-for-one stock split approved by shareholders on February 7, 2005.
3. Cash flow is defined as "funds provided by operations," as reflected in the consolidated statement of cash flows. Cash flow and cash flow per share are measures that provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management utilizes these measures to assess the Company's ability to finance operating activities and capital expenditures. Cash flow and cash flow per share are not measures that have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.
4. EBITDA is defined as income before interest, taxes, depreciation and amortization. EBITDA is presented because it is frequently used by securities analysts and others for evaluating companies and their ability to service debt. EBITDA is a measure that does not have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.

Corporate Information

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Ronald P. Mathison - Chairman (1)(2)
President & Chief Executive Officer
Matco Investments Ltd.

James S. Blair (3)
Chairman & Chief Executive Officer
ExAlta Energy Inc.

Gregory S. Fletcher (1)(2)
President
Sierra Energy Inc.

Martin Lambert (3)
Managing Director
Matco Capital Ltd.

R. T. (Tim) Swinton (1)(2)
Independent Businessman

Douglas R. Ramsay
President & Chief Executive Officer
Calfrac Well Services Ltd.

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance and Nominating Committee

OFFICERS >

Douglas R. Ramsay
President & Chief Executive Officer

Gordon A. Dibb
Executive Vice President & Chief Operating Officer

Tom J. Medvedic
Vice President, Finance & Chief Financial Officer

Donald R. Battenfelder
Vice President, Operations

Dwight M. Bobier
Vice President, Technical Services

John L. Grisdale
Vice President, Business Development

Stephen T. Dadge
Vice President, Corporate Services

Michael D. Olinek
Corporate Controller

Matthew L. Mignault
Controller

HEAD OFFICE >

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Noyabrsk
Purpe

AUDITOR >

PricewaterhouseCoopers LLP
Calgary, Alberta

BANKER >

HSBC Bank Canada
Calgary, Alberta

LEGAL COUNSEL >

Bennett Jones LLP
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT >

For information concerning lost share certificates and estate transfers or for a change in share registration or address, please contact the transfer agent and registrar at 1-800-564-6253 or (403) 267-6800, or by e-mail at service@computershare.com, or write to:

Computershare Trust Company of Canada
Suite 600, 530 Eighth Avenue S.W.
Calgary, Alberta T2P 3S8

STOCK EXCHANGE LISTING >

Toronto Stock Exchange
Trading Symbol: CFW

ANNUAL MEETING >

The Annual Meeting of Shareholders of Calfrac Well Services Ltd. will be held on May 9, 2007 at 3:30 p.m. (Calgary time) in the McMurray Room of the Calgary Petroleum Club, Calgary, Alberta. All shareholders are cordially invited and encouraged to attend. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to Computershare Trust Company of Canada at their earliest convenience.

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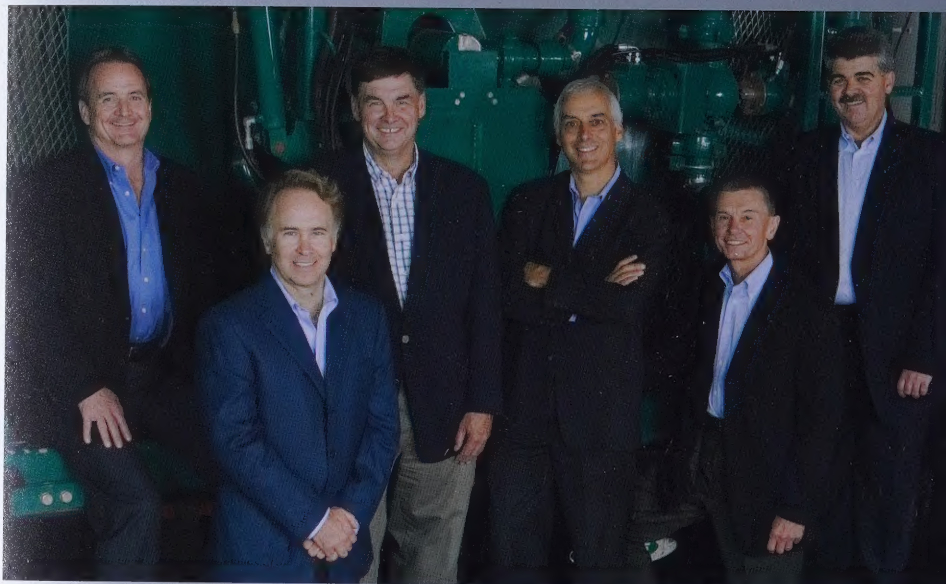
Board of Directors



Left to Right:

James S. Blair (3) **Ronald P. Mathison** Chairman (1)(2) **R. T. (Tim) Swinton** (1)(2) **Martin Lambert** (3)
Gregory S. Fletcher (1)(2) **Douglas R. Ramsay**

(1) Member of the Audit Committee (2) Member of the Compensation Committee (3) Member of the Corporate Governance and Nominating Committee

Officers

Left to Right (standing):

Donald R. Battenfelder Vice President, Operations **Tom J. Medvedic** Vice President, Finance & Chief Financial Officer
Dwight M. Bobier Vice President, Technical Services **Douglas R. Ramsay** President & Chief Executive Officer
Gordon A. Dibb Executive Vice President & Chief Operating Officer **Matthew L. Mignault** Controller

Left to Right (seated):

John L. Grisdale Vice President, Business Development **Michael D. Olinek** Corporate Controller
Stephen T. Dadge Vice President, Corporate Services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